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Editor

A concise easily digested monthly analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values...Current Studies...Surveys...Forecasts

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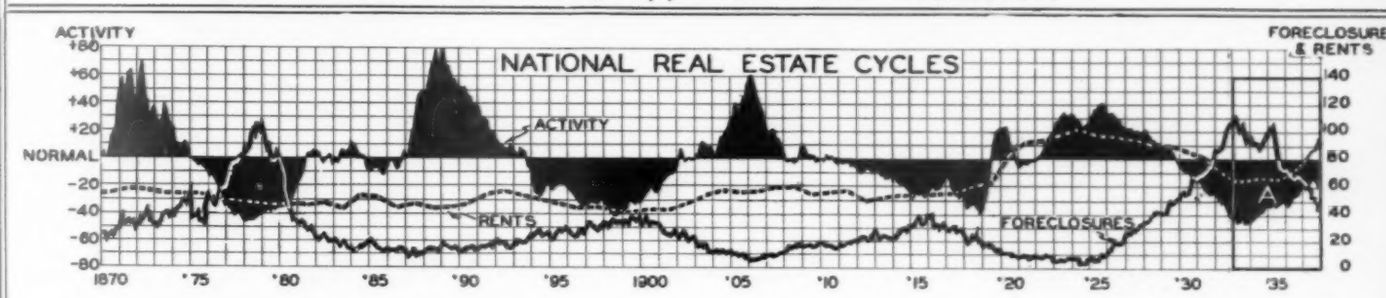
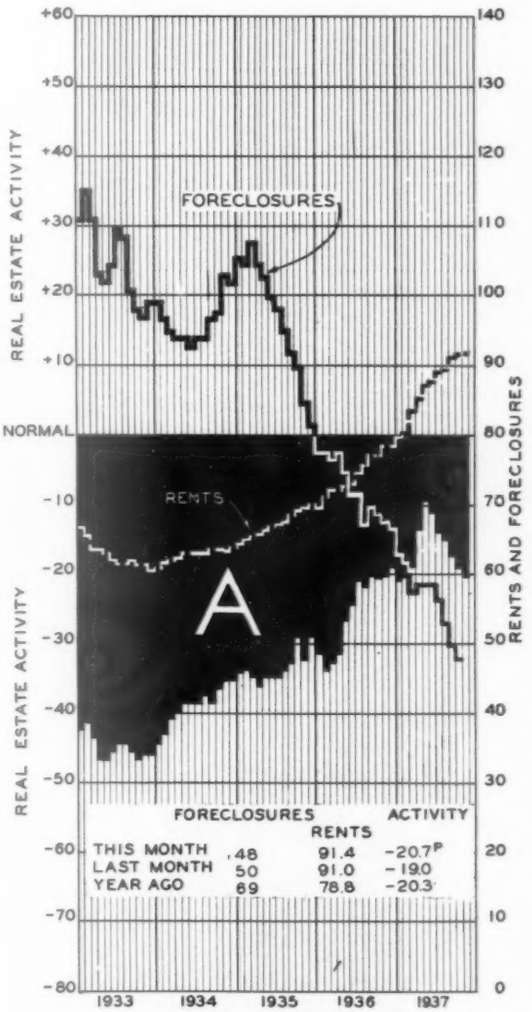
Real Estate Economists, Appraisers and Counselors



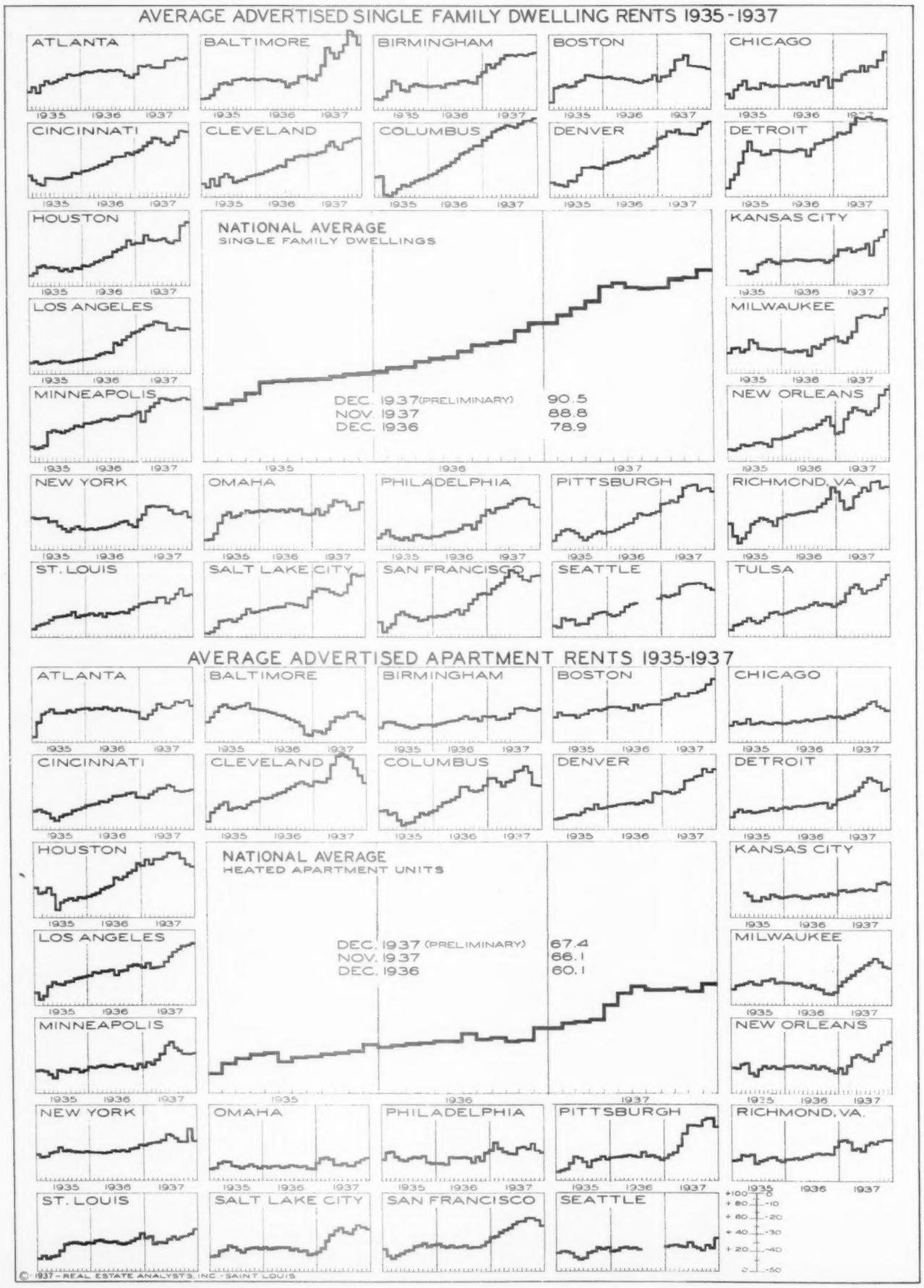


THE chart above shows the booms and depressions in real estate from 1870 to the present, the big black areas above the line representing the real estate booms and the black areas below the line representing the depressions. The level of residential rents is charted, not as a percentage above or below a normal line, but as an index from the bottom of the chart and is read on the right-hand scale, as is the index of foreclosures. The chart to the left is the last four years of the upper chart, enlarged to show monthly fluctuations.

The national average of real estate sales continued to decline during November for the sixth consecutive month. This was to be expected in view of the uncertainty in the general economic and political situation, which has the effect of postponing all types of capital investments.

It is quite interesting to note that in spite of the recession in general business, real estate foreclosures have continued their rapid drop. The index on this chart is different from the one showing total urban foreclosures on pages 842 and 843 of this report. It is based on the same general material used in the foreclosure chart on page 847. In spite of the recession our index of residential rents advanced by a very slight percentage.

We are inclined to believe that the present recession in general business, which is still increasing in intensity, will carry through the early spring, and that recovery will be resumed sometime during the summer. We believe that the volume of new building in 1938 will be less than the volume in 1937.


AVERAGE ADVERTISED SINGLE FAMILY DWELLING RENTS 1935-1937
ATLANTA
BALTIMORE
BIRMINGHAM
BOSTON
CHICAGO
CINCINNATI
CLEVELAND
COLUMBUS
DENVER
DETROIT
HOUSTON
NATIONAL AVERAGE
SINGLE FAMILY DWELLINGS
KANSAS CITY
LOS ANGELES
MILWAUKEE
MINNEAPOLIS
NEW ORLEANS
DEC. 1937 (PRELIMINARY) 90.5
NOV. 1937 88.8
DEC. 1936 78.9
NEW YORK
OMAHA
PHILADELPHIA
PITTSBURGH
RICHMOND, VA.
ST. LOUIS
SALT LAKE CITY
SAN FRANCISCO
SEATTLE
TULSA
1935
1936
1937
AVERAGE ADVERTISED APARTMENT RENTS 1935-1937
ATLANTA
BALTIMORE
BIRMINGHAM
BOSTON
CHICAGO
CINCINNATI
CLEVELAND
COLUMBUS
DENVER
DETROIT
HOUSTON
NATIONAL AVERAGE
HEATED APARTMENT UNITS
KANSAS CITY
LOS ANGELES
MILWAUKEE
DEC. 1937 (PRELIMINARY) 67.4
NOV. 1937 66.1
DEC. 1936 60.1
MINNEAPOLIS
NEW ORLEANS
NEW YORK
OMAHA
PHILADELPHIA
PITTSBURGH
RICHMOND, VA.
ST. LOUIS
SALT LAKE CITY
SAN FRANCISCO
SEATTLE
+100
+80
+60
+40
+20
0
-10
-20
-30
-40
-50
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ADVERTISED RENTALS ON DWELLING UNITS

REAL Estate Analysts, Inc., computes the average advertised rent of single family dwelling and heated apartment units each month in the twenty-six metropolitan areas listed below. The figures given are average rents per month per room for all units of each type, large and small, advertised in the classified columns of the leading newspapers of each city. The figures given below, unlike the figures which appeared in earlier issues of The Real Estate Analyst, have been adjusted for seasonal fluctuation, as we have found some regular seasonal fluctuation in our advertised rental prices.

The average rent per month per room of all places advertised will vary considerably from month to month due to the inclusion some months of a larger number of either high or low priced units. The charts on the opposite page show these figures adjusted for seasonal fluctuation, city by city, with large composite charts showing the average fluctuations in principal cities. Advertised rents represent not what properties are actually renting for, but what the owners of the properties believe they will bring. After some adjustment in periods of depression for bargaining between the landlord and the tenant and for other concessions, we are convinced that these rents represent roughly the levels at which properties are being rented currently. The last figures are preliminary, based on the advertisements appearing during the first two weeks of the month.

		1935					1936												1937											
		July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	*Dec.
	National Index	66.2	66.6	67.5	67.4	68.3	68.6	68.9	69.6	69.8	70.9	71.4	71.7	71.0	74.1	74.5	74.9	77.1	78.9	78.9	80.6	82.0	83.9	86.1	87.0	86.8	86.0	86.5	88.0	88.8	90.5
SINGLE FAMILY DWELLINGS	Atlanta	$6.52	$6.66	$6.75	$6.97	$6.91	$6.93	$7.03	$7.16	$7.15	$7.20	$7.23	$7.17	$7.22	$7.21	$7.29	$7.15	$6.89	$6.75	$6.99	$7.50	$7.47	$7.56	$7.37	$7.33	$7.33	$7.79	$7.85	$7.96	$7.84	$7.91
	Baltimore	5.71	5.98	5.99	6.03	5.91	5.99	5.92	5.94	5.95	5.91	5.89	5.93	5.85	5.60	5.76	5.81	6.18	6.20	6.05	5.96	6.22	6.74	7.84	7.50	7.11	7.58	8.08	9.13	8.76	7.95
	Birmingham	4.85	4.80	5.01	5.12	5.05	5.03	5.01	5.03	5.06	4.98	5.13	5.15	5.13	5.27	5.28	5.20	5.18	5.50	5.70	6.13	5.93	6.19	6.41	6.60	6.59	6.45	6.52	6.52	6.59	6.65
	Boston	7.19	7.27	7.61	7.58	7.45	7.40	7.40	7.42	7.31	7.29	7.30	7.25	7.23	7.09	7.05	7.20	7.30	7.55	7.19	7.48	7.55	7.91	8.58	8.64	8.98	8.20	8.17	7.95	7.98	7.93
	Chicago	9.21	9.11	9.55	9.45	9.36	9.39	9.38	9.38	9.46	9.44	9.45	9.53	9.41	9.67	9.32	9.80	10.11	9.25	9.85	9.83	10.31	10.55	10.62	10.56	11.11	10.65	11.00	10.87	11.85	12.50
	Cincinnati	7.82	7.81	7.90	7.93	8.23	8.19	8.34	8.38	8.53	8.68	8.83	8.93	9.11	9.50	9.53	9.54	9.83	9.70	9.98	10.12	10.49	10.79	11.29	11.18	10.60	10.48	10.68	11.22	11.82	11.76
	Cleveland	7.86	7.43	7.70	7.73	7.92	8.00	8.07	8.13	8.30	8.40	8.59	8.75	8.69	9.28	9.27	9.48	9.53	9.60	9.65	9.62	9.82	9.95	10.40	10.62	10.25	9.99	10.62	10.64	10.87	10.92
	Columbus	5.07	5.01	5.16	5.26	5.38	5.40	5.53	5.65	5.79	5.95	6.07	6.23	6.42	6.71	6.83	7.07	7.25	7.25	7.64	7.86	8.22	8.44	8.54	8.65	8.60	8.54	8.74	9.00	9.00	9.20
	Denver	5.53	5.90	5.90	5.99	5.93	5.89	6.08	6.21	6.26	6.28	6.36	6.48	6.54	6.46	6.59	6.77	7.05	7.14	7.75	7.85	8.23	8.20	8.40	8.02	7.93	7.96	7.82	8.32	8.64	8.83
	Detroit	8.40	8.35	8.10	8.18	8.02	8.42	8.35	8.32	8.29	8.40	8.55	8.51	8.09	8.49	9.03	9.04	9.31	9.35	9.59	9.90	9.80	9.91	10.57	11.34	11.20	11.23	11.28	10.85	10.95	10.80
	Houston	7.11	6.90	7.06	6.87	7.10	7.09	7.22	7.21	7.35	7.50	7.62	7.81	7.85	8.29	8.40	8.62	9.15	8.84	8.92	8.92	9.55	9.20	9.00	9.10	9.15	8.83	8.78	9.03	10.32	10.62
	Kansas City	4.56	4.88	4.98	5.10	4.96	4.90	5.04	5.02	5.05	5.10	5.09	5.05	5.03	5.05	5.07	5.05	4.94	5.03	5.23	5.55	5.55	5.65	5.46	5.49	5.57	5.82	5.23	5.93	6.15	6.66
	Los Angeles	8.54	8.40	8.43	8.46	8.53	8.64	8.68	8.72	8.74	9.04	9.18	9.28	9.25	10.05	9.85	10.34	10.62	11.12	11.13	11.46	11.73	11.81	12.16	11.72	11.66	11.10	11.15	11.40	11.32	11.31
	Milwaukee	8.64	8.20	8.19	8.13	8.12	8.15	8.15	7.99	7.98	8.03	8.00	8.10	7.75	8.38	8.23	8.56	8.98	9.08	9.14	8.81	8.72	8.54	8.72	9.90	10.16	10.14	9.94	9.83	10.11	10.70
	Minneapolis	6.00	5.92	6.01	6.18	6.30	6.27	6.42	6.42	6.49	6.56	6.67	6.67	6.64	6.78	6.85	6.85	6.85	6.99	7.18	6.53	7.21	7.41	7.74	7.98	7.97	7.94	7.85	7.80	7.93	7.83
	New Orleans	5.34	5.35	5.30	5.20	5.49	5.54	5.64	5.65	5.74	5.90	5.98	6.10	6.05	6.13	6.34	6.55	6.78	6.24	5.81	5.90	6.63	7.07	7.32	7.15	7.13	6.87	7.03	7.26	8.13	8.60
	New York	11.92	11.61	11.43	11.62	11.82	11.59	11.52	11.59	11.52	11.69	11.71	11.77	11.99	12.14	12.38	12.43	12.12	11.77	12.60	13.29	14.21	14.29	14.19	14.08	14.02	13.45	13.20	13.00	13.50	12.79
	Omaha	6.10	6.19	6.31	6.46	6.39	6.41	6.46	6.40	6.47	6.44	6.42	6.50	6.37	6.50	6.47	6.52	6.27	6.22	6.30	6.53	6.21	6.35	6.69	7.03	6.90	6.91	6.57	6.42	6.47	6.92
	Philadelphia	5.63	5.48	5.77	5.78	5.68	5.66	5.70	5.70	5.75	5.90	5.95	5.97	6.11	6.30	6.30	6.19	6.49	6.85	7.22	7.06	7.33	7.36	7.40	7.54	7.70	7.86	7.90	7.85	7.49	7.28
	Pittsburgh	6.76	6.59	6.77	6.96	7.10	6.98	7.10	7.12	7.26	7.39	7.59	7.67	7.95	8.33	8.28	8.28	8.33	8.51	9.17	9.21	9.40	9.26	9.68	10.42	10.65	10.52	10.04	10.21	10.25	10.08
	Richmond	6.47	6.63	6.59	6.44	6.24	6.63	6.71	6.86	6.85	6.90	6.96	7.07	7.11	7.10	7.39	7.69	7.98	8.88	6.52	7.82	7.26	7.34	8.06	8.30	8.70	8.59	9.17	9.15	8.70	8.72
	Saint Louis	6.64	6.65	6.78	6.91	6.68	6.73	6.79	6.82	6.76	6.82	6.65	6.86	6.81	6.84	6.93	6.86	7.15	7.30	7.44	7.59	7.60	7.60	7.89	7.88	7.34	7.74	8.04	8.43	7.93	8.05
	Salt Lake City	5.20	5.34	5.57	5.58	5.65	5.69	5.78	5.79	5.90	5.94	5.97	6.00	6.15	6.11	6.08	6.04	5.94	6.45	6.86	7.05	7.04	6.99	6.82	6.61	6.49	6.67	7.27	7.92	7.74	7.81
	San Francisco	7.36	7.22	7.17	7.00	7.05	7.28	7.26	7.31	7.29	7.36	7.54	7.70	7.41	7.70	8.18	8.52	8.97	9.01	8.99	9.37	9.64	9.83	10.30	10.90	10.58	10.30	9.95	9.97	10.35	10.39
	Seattle	5.07	5.07	5.31	5.56	5.62	5.65	5.55	5.45	5.51	5.70	5.96	6.09	6.19	x	x	x	x	6.40	6.58	6.49	6.59	6.69	7.04	7.14	7.26	7.26	7.31	7.24	6.96	6.83
	Tulsa	6.28	6.38	6.58	6.86	6.95	6.79	6.84	6.95	7.06	7.14	7.12	7.26	7.38	7.52	7.34	7.45	7.41	7.27	7.42	7.65	8.23	8.74	8.84	8.45	8.17	8.39	8.48	8.86	9.15	9.51
HEATED APARTMENT UNITS	National Index	55.3	55.5	55.8	56.1	56.3	57.3	56.9	57.3	57.6	57.5	58.0	58.0	59.1	58.2	58.4	57.9	58.0	60.1	60.1	60.9	61.0	61.5	64.0	65.4	67.1	66.5	66.5	66.6	66.1	67.4
	Atlanta	9.88	9.88	10.11	9.99	10.23	10.26	10.28	10.20	10.32	10.31	10.45	10.34	10.20	10.35	10.21	10.13	10.04	9.96	9.45	9.36	9.70	10.20	10.62	10.36	10.32	10.45	10.88	10.80	10.84	10.40
	Baltimore	11.68	11.75	11.95	12.20	11.59	11.55	11.49	11.48	11.23	11.21	10.98	10.85	10.64	10.50	10.26	9.95	9.26	9.20	9.55	9.54	9.32	9.64	10.28	10.60	10.66	10.70	11.03	11.27	10.65	10.53
	Birmingham	8.11	8.01	8.08	8.30	8.30	8.30	8.29	8.36	8.40	8.53	8.55	8.60	8.80	8.97	8.77	8.80	8.59	8.92	8.90	8.95	8.69	8.74	8.83	9.10	9.54	9.58	9.50	9.40	9.37	9.50
	Boston	11.49	11.59	11.95	12.19	11.90	12.08	12.30	12.30	12.30	12.23	12.20	12.05	12.70	12.26	12.51	12.55	12.59	12.53	13.20	13.27	13.50	13.94	13.68	13.67	14.02	14.00	14.11	14.43	15.09	15.82
	Chicago	11.39	11.51	11.40	11.38	11.47	11.43	11.40	11.46	11.58	11.51	11.61	11.71	11.61	11.80	11.82	11.90	12.20	12.03	12.10	11.97	12.23	12.30	12.59	12.72	13.20	13.60	13.90	13.15	12.92	12.68
	Cincinnati	10.23	10.41	10.47	10.70	10.86	11.06	11.26	11.36	11.47	11.69	11.63	11.91	12.33	12.40	12.44	12.67	12.70	12.20	12.20	12.12	12.50	12.92	13.12	13.22	13.67	13.34	12.87	12.61	12.62	12.68
	Cleveland	9.25	9.34	9.25	9.51	9.76	9.83	10.10	10.09	10.15	10.40	10.60	10.67	11.00	11.27	11.57	11.68	11.53	11.36	11.81	11.71	11.70	12.08	13.68	14.56	14.62	14.60	14.18	13.22	12.26	11.45
	Columbus	8.05	8.09	8.58	8.89	8.72	8.94	9.07	9.38	9.74	9.76	10.00	10.21	11.30	11.30	10.79	10.74	10.82	11.38	12.13	12.13	11.72	11.28	11.58	11.72	12.69	13.11	13.25	12.59	11.28	11.25
	Denver	10.01	10.43	10.27	10.76	10.43	10.48	10.53	10.60	10.71	10.72	10.76	10.86	10.69	10.90	11.15	10.98	11.99	11.92	12.09	12.08	11.83	12.00	12.38	13.28	13.40	13.71	13.79	14.70	14.32	14.57
	Detroit	10.06	10.17	10.24	10.43	10.25	10.35	10.49	10.40	10.59	10.61	10.59	10.65	10.69	10.81	10.88	10.90	10.46	10.74	11.32	11.45	11.58	11.69	12.00	12.50	13.18	13.69	13.40	13.11	12.15	12.31
	Houston	7.54	7.77	7.86	7.77	7.91	7.86	8.00	8.12	8.26	8.53	8.70	8.78	9.47	9.31	9.50	9.87	10.12	10.69	10.50	11.03	10.60	11.08	11.08	11.12	11.51	11.55	11.60	11.02	10.38	10.23
	Kansas City	6.44	6.70	6.59	6.81	6.73	6.64	6.68	6.73	6.78	6.73	6.68	6.68	6.79	6.74	6.86	6.71	6.90	6.85	7.11	7.12	7.05	7.11	7.09	7.09	7.04	7.23	7.11	7.52	7.57	7.48
	Los Angeles	10.88	11.22	11.27	11.47	11.62	11.69	11.75	12.09	12.07	12.21	12.21	12.44	12.79	12.33	12.36	12.79	12.96	12.92	12.66	13.17	12.51	12.58	12.69	13.26	13.80	14.46	14.57	15.25	15.41	15.60
	Milwaukee	9.66	10.03	10.09	10.20	9.89	9.90	9.88	9.85	9.73	9.85	9.64	9.51	9.70	9.40	9.34	9.06	9.05	9.13	9.65	10.00	10.30	10.62	10.87	11.11	11.51	11.76	12.07	11.88	11.41	11.06
	Minneapolis	8.68	8.65	8.86	8.81	8.67	8.73	9.00	8.94	9.05	9.11	9.04	9.03	9.14	9.19	9.04	9.04	8.86	9.22	9.04	9.35	9.17	9.51	9.96	10.75	11.17	10.45	10.22	10.00	10.00	9.95
	New Orleans	8.18	8.40	8.23	8.38	8.28	8.28	8.41	8.49	8.35	8.44	8.37	8.34	8.54	8.24	8.42	8.28	8.10	7.95	8.31	7.90	8.48	9.19	9.25	8.95	9.07	8.65	9.38	9.60	10.18	10.45
	New York	17.82	17.85	17.80	17.69	17.60	17.67	17.58	17.56	17.57	17.57	17.67	17.80	17.74	17.88	17.68	18.05	18.22	18.72	18.84	18.90	19.00	19.08	19.48	20.22	20.10	19.62	19.15	19.00	21.80	19.25
	Omaha	9.97	10.13	10.22	10.40	10.23	10.07	10.23	10.11	10.21	10.24	10.10	10.21	10.38	10.32	10.27	10.30	10.00	10.02	10.51	11.01	11.09	10.90	10.32	10.42	10.50	10.37	10.42	10.75	10.83	11.02
	Philadelphia	13.67	13.82	13.77	13.92	13.11	13.03	13.07	13.10	12.95	12.85	12.82	12.82	12.85	12.76	13.11	13.87	13.48	14.44	14.75	15.64	14.98	14.50	14.22	14.09	14.92	14.91	14.80	15.41	14.58	14.26
	Pittsburgh	9.59	9.20	9.64	9.76	10.00	9.77	9.91	9.92	9.96	10.02	10.03	10.02	9.99	10.45	10.11	10.16	9.95	9.72	9.90	10.19	10.48	11.09	12.22	13.28	13.30	13.05	13.89	14.04	14.01	13.05
	Richmond	9.62	9.76	9.93	9.97	9.77	9.68	9.80	9.89	10.01	9.85	10.01	10.03	10.29	10.41	10.31	10.41	10.40	11.00	11.62	11.72	11.53	10.72	10.82	10.53	11.16	11.42	11.22	11.52	11.60	11.60
	Saint Louis	9.71	9.81	9.86	9.81	9.72	9.84	9.79	10.04	10.07	9.96	9.89	9.95	9.76	9.74	9.79	10.04	10.23	10.57	10.29	10.38	9.71	9.90	9.79	10.04	10.40	10.19	10.35	10.44	10.62	11.02
	Salt Lake City	9.29	9.06	9.31	9.38	9.40	9.36	9.45	9.33	9.40	9.45	9.45	9.45	9.30	9.37	9.19	9.21	8.90	8.94	9.12	9.40	9.99	10.54	10.80	11.07	10.80	10.68	11.00	11.38	11.10	10.94
	San Francisco	10.94	11.40	11.48	11.69	11.41	11.49	11.59	11.44	11.39	11.49	11.30	11.38	11.49	11.22	11.30	11.30	11.42	11.81	12.28	12.43	12.90	13.19	13.39	13.70	14.00	13.98	14.40	14.32	14.12	13.49
	Seattle	9.65	10.06	10.21	10.58	10.48	10.52	10.23	10.37	10.53	10.60	10.50	10.56	10.46	x	x	x	x	10.32	10.65	10.79	10.82	10.75	10.67	10.98	10.73	10.52	10.41	10.90	10.60	11.55

*Preliminary xNewspaper strike

FLUCTUATIONS IN RESIDENTIAL CONSTRUCTION COSTS

AN index of the fluctuations in wholesale building material prices such as the index prepared by the United States Bureau of Labor is of comparatively little value in determining the fluctuations of actual construction costs on residential buildings, nor even of the material cost of building a building as changes in wholesale prices and delivered prices on the job do not occur simultaneously or by the same percentage; nor do labor costs at the site or contractors' margins vary in direct relation to materials, either wholesale or retail.

In the latter part of 1932 Real Estate Analysts, Inc., published a series of studies covering five different types of residential buildings and the fluctuations in their costs year by year from 1907 to that date. One of these buildings was brought up to date in the March, 1937, Real Estate Analyst on pages 692 to 699. The charts on the following page and on pages 844 and 845 in this issue show the fluctuations in construction cost of a building as nearly identical as it could have been built over the period from 1925 to the present. Identical floor plans have been figured for both brick and frame construction. These floor plans and an elevation are shown on pages 844 and 845.

The general specifications for the brick building are as follows: FOUNDATION - 18" rubble stone; EXTERIOR WALLS - 13" matt brick, tile backing; ROOF - standard slate;FLOOR JOISTS - 2 x 10 No. 1 yellow pine; FLOORING - 13/16" clear plain red oak; PARTITIONS - wood lath, three coats Gypsum plaster; MILLWORK - plain red gum; INSULATION - mineral wool, ceiling second floor; PLUMBING - high grade plumbing fixtures; HEATING - gas-fired winter air-conditioning system. In the spring of 1937 this building was actually built for $11,000.

An identical building, but of frame construction, would show the following variations in the specifications: EXTERIOR WALLS - 2 x 6 No. 1 yellow pine studs, 1" No. 2 yellow pine sheathing, 1" clear redwood drop siding, 30 lb. felt; ROOF - composition shingle, 3 in 1 strip, 257 lb.; INSULATION - mineral wool, ceiling and exterior walls. This building, built in the spring of 1937, cost $10,200.

In working back the cost on an identical building it is necessary, of course, to change the specifications slightly as in the earlier years, for instance, winter air-conditioning systems were not available. A hot water heating system was figured in the earlier period.

It is interesting to note the relative fluctuations in price of the different kinds of materials which went into a building of this type. These relative fluctuations for a brick building are shown on the chart at the bottom of the next page. On this chart the cost of each of the materials going into the building in 1926 was considered 100, and the way the different groups of materials have varied in price since then is shown by the various lines on the chart. It will be noticed that the cost of lathing and plastering materials is 111% of the 1926 level, while the cost of plumbing fixtures is only 66.6% of the 1926 level. The average of all materials is 98.3% of the 1926 level. By turning to the chart on page 844 the relationship of these material costs to the total cost of building the building, the labor cost,and the contractor's margin is graphically shown.

It might be added at this point that in every case material costs are taken from actual records of materials delivered to the job, and that labor costs are taken by averaging the actual wages paid by a number of contractors on residential work. While much of the work was done by union men, the confidential records of the contractors show that all during the depression a large percentage of these men worked for less than the union scale. The wage line shown represents an average of the wages actually paid on this type of construction. While these figures on residential construction costs include the normal contractor's margin, they do not include the additional profit often made by the speculative builder in periods of great building activity.

We were quite surprised, in this and similar studies we have made, to find that wages at the site have not increased the cost of residential building by as large a percentage as has the increase in the cost of some building materials. Of course, it can be argued with some justification that a large part of the increase in the cost of building materials is due to an increase in labor cost in their production and to higher taxes. The cost record of the producers of plumbing fixtures deserve special commendation. In spite of the fact that these fixtures are of far higher quality now than they were in 1925 and 1926, the delivered cost on the job is only two-thirds of the 1926 level.

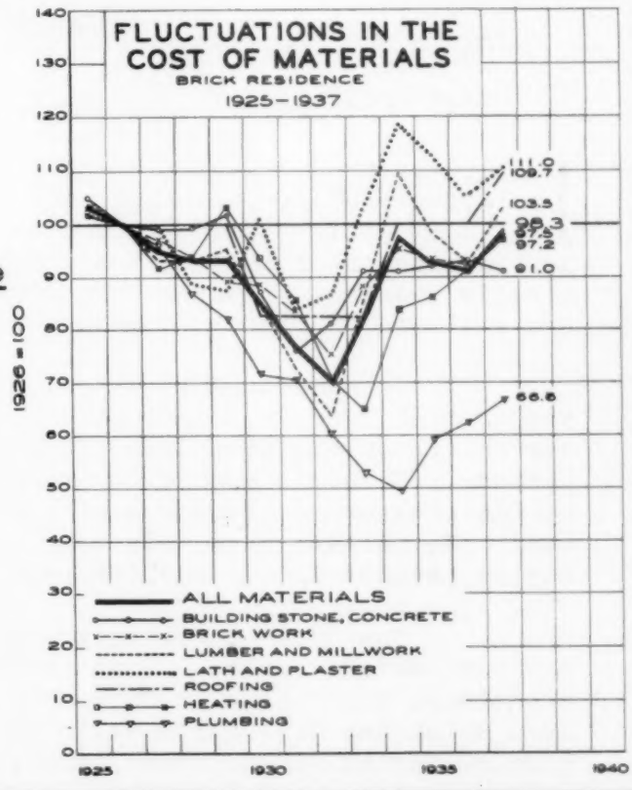
It will be noted that the percentage fluctuations in building this building as a frame building and building it as a brick building have been quite similar, although the actual cost of the frame building is lower.

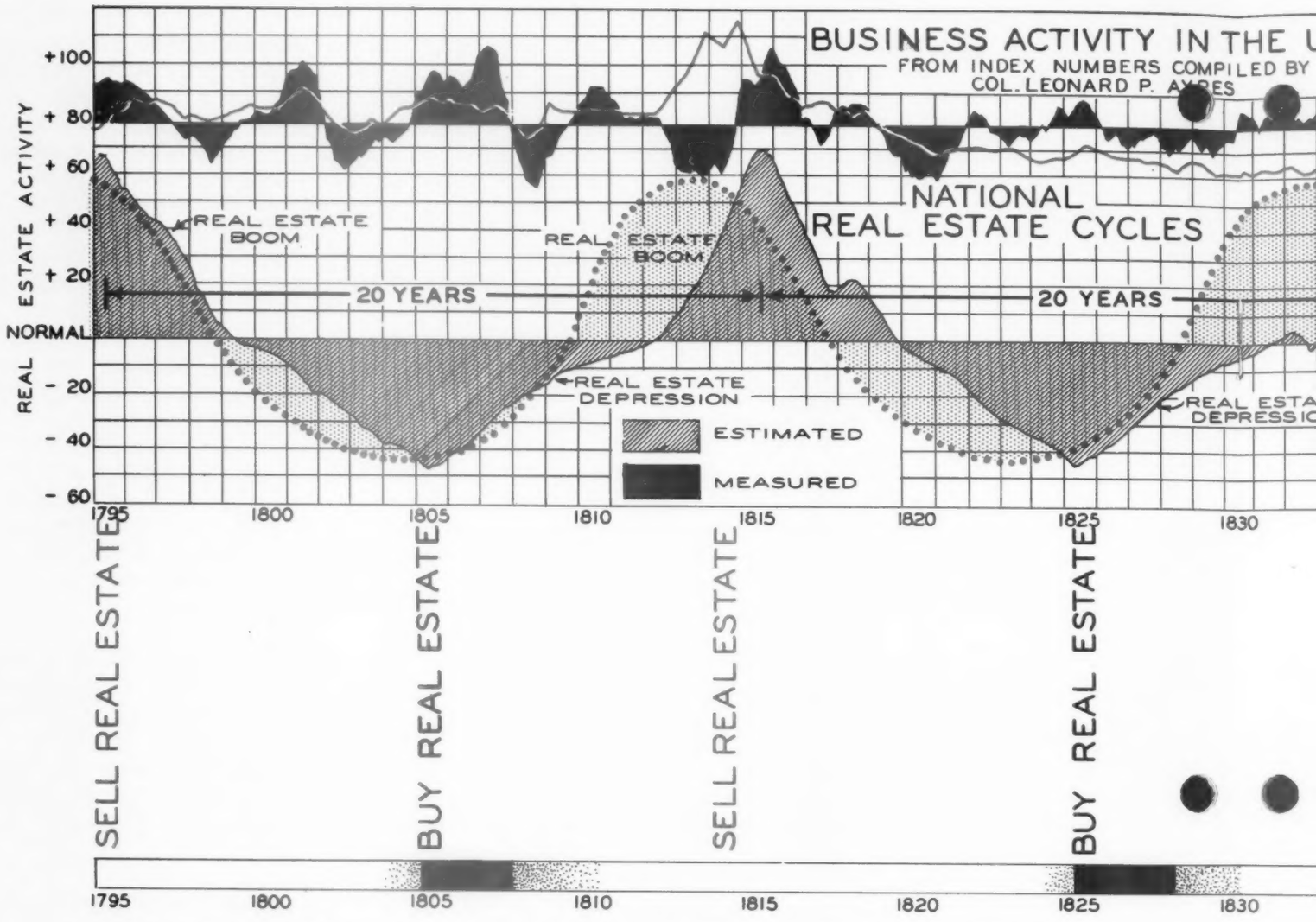
In the table below we show the index numbers of cost of both types of buildings from 1925 to the present. The figures for all preceding years are averages for the year. The figures for 1937 are figures for December.

RESIDENTIAL
CONSTRUCTION COST INDEX

1926 = 100

	Brick Residence	Frame Residence
1925	101.8	102.0
1926	100.0	100.0
1927	95.5	95.2
1928	91.3	89.5
1929	91.0	90.3
1930	78.1	76.6
1931	67.3	65.8
1932	62.0	60.2
1933	69.7	68.7
1934	79.5	81.3
1935	80.0	81.0
1936	82.0	81.0
1937	87.5	87.0



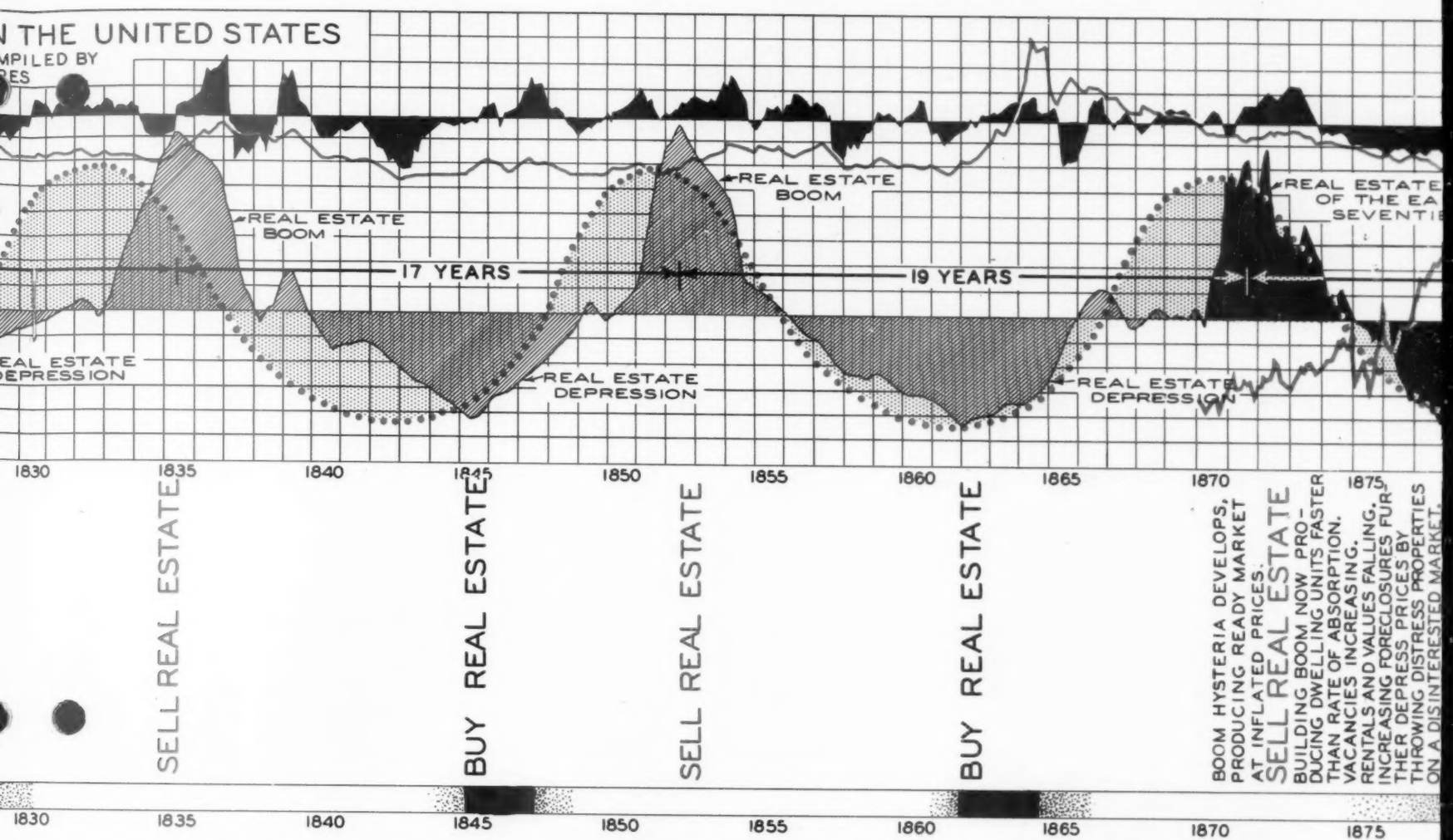


THE PRESENT BUYING PERIOD FOR REAL ESTATE

IN the last one hundred and forty-three years there have been just eight relatively short periods in which average improved real estate in typical communities could be purchased for phenomenal profits. Each of these periods was the result of practically the same causes, occurring in practically the same sequence. Due to the present slowing down in recovery we are still in the last of these eight periods.

The chart above shows these periods in sharp detail from 1870 to the present, and in rough outline for the period from 1795 to 1870.(1) The narrow ribbon at the bottom of the chart shows in black the unusual buying periods. Note the regularity with which these periods appear. From 1870 to the present the sequence of events is detailed between the buying periods. We believe that this same sequence could be filled out between the buying periods in the earlier part of the chart.

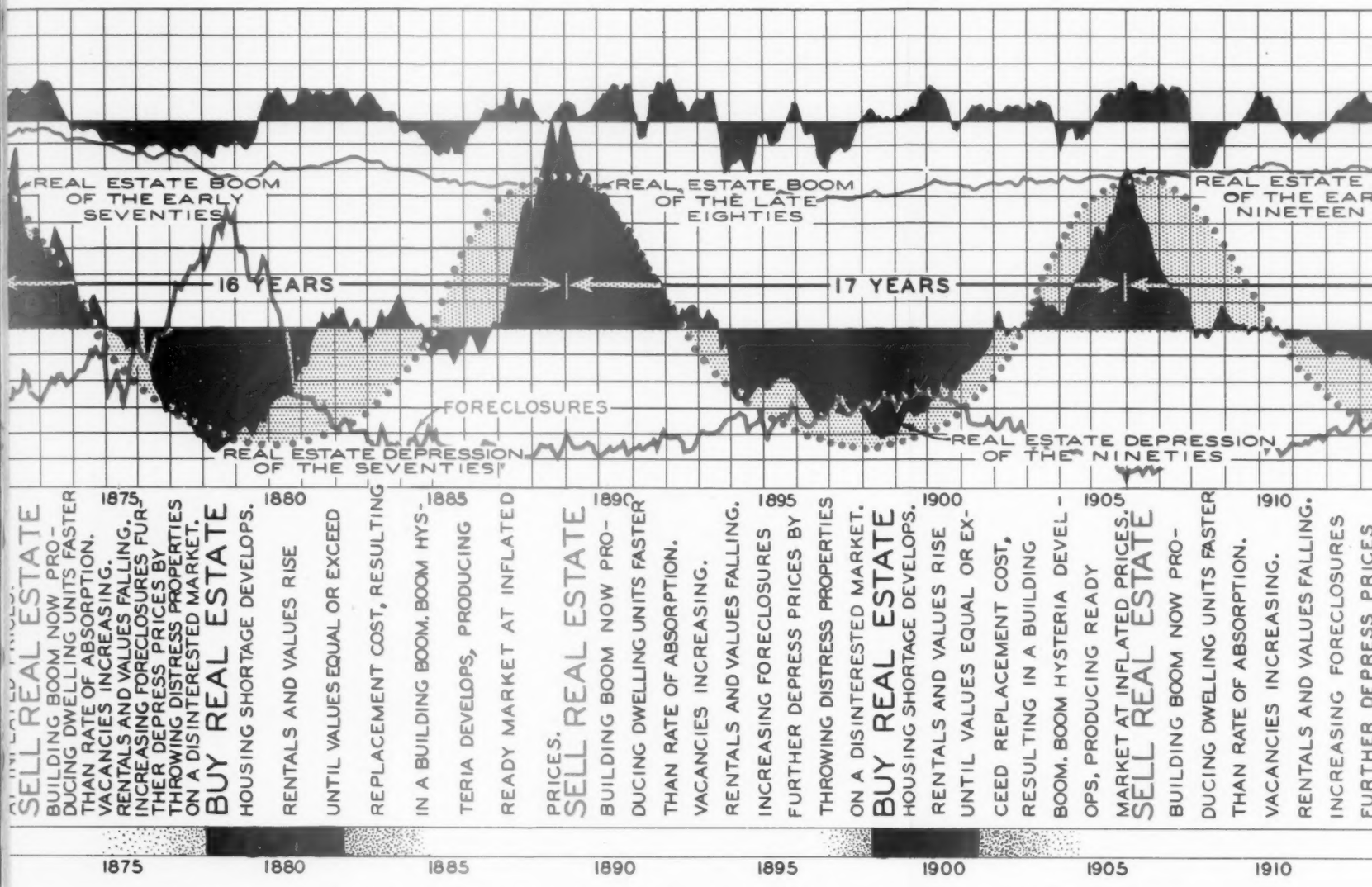
The most striking thing about this study is the regularity of the real estate cycle. Real estate booms have succeeded real estate depressions, which have in turn been followed by other booms, forming a pattern which has been quite definite over the entire period. There has never been a period longer than twenty years between real estate booms in the United States, and there has never been a period shorter than sixteen



years. The average length of the interval from the peak of one real estate boom to the next has been 18.3 years.

In an effort to emphasize this regularity we have superimposed in red on our chart a dotted line with a wave-like pattern, with eighteen years from peak to peak and eighteen years from valley to valley. This line rises in eight years and falls in ten. It is started in 1795 and is drawn in regular fashion over the entire period of a hundred and fifty-five years without any variation whatever in its shape or length. If real estate booms and depressions were absolutely mathematical in their outline, they would resemble the red areas enclosed by this dotted line.

No economic data,however, follow a mathematical curve; but it is quite striking that in the entire history of the United States we have never had a real estate boom which occurred badly out of step with this mathematical pattern. The real estate booms have overlapped the red areas above the line; the real estate depressions have always overlapped the red areas below the line. Should the present recession develop into a genuine real estate depression similar to the great real estate depressions shown on the chart in the past, it will be the first time in the entire history of the United States that the cycle has seriously deserted its pattern. It is true that real estate activity might fall during the next year,might be quite backward about going into a real boom, might hover around the normal


REAL ESTATE BOOM OF THE EARLY SEVENTIES
REAL ESTATE BOOM OF THE LATE EIGHTIES
REAL ESTATE OF THE EAR NINETEEN
16 YEARS
17 YEARS
FORECLOSURES
REAL ESTATE DEPRESSION OF THE SEVENTIES
REAL ESTATE DEPRESSION OF THE NINETIES
SELL REAL ESTATE
BUILDING BOOM NOW PRODUCING DWELLING UNITS FASTER THAN RATE OF ABSORPTION.
VACANCIES INCREASING.
RENTALS AND VALUES FALLING.
INCREASING FORECLOSURES FURTHER DEPRESS PRICES BY THROWING DISTRESS PROPERTIES ON A DISINTERESTED MARKET.
BUY REAL ESTATE
HOUSING SHORTAGE DEVELOPS.
RENTALS AND VALUES RISE
UNTIL VALUES EQUAL OR EXCEED
REPLACEMENT COST, RESULTING
IN A BUILDING BOOM. BOOM HYSTERIA DEVELOPS, PRODUCING
READY MARKET AT INFLATED
PRICES.
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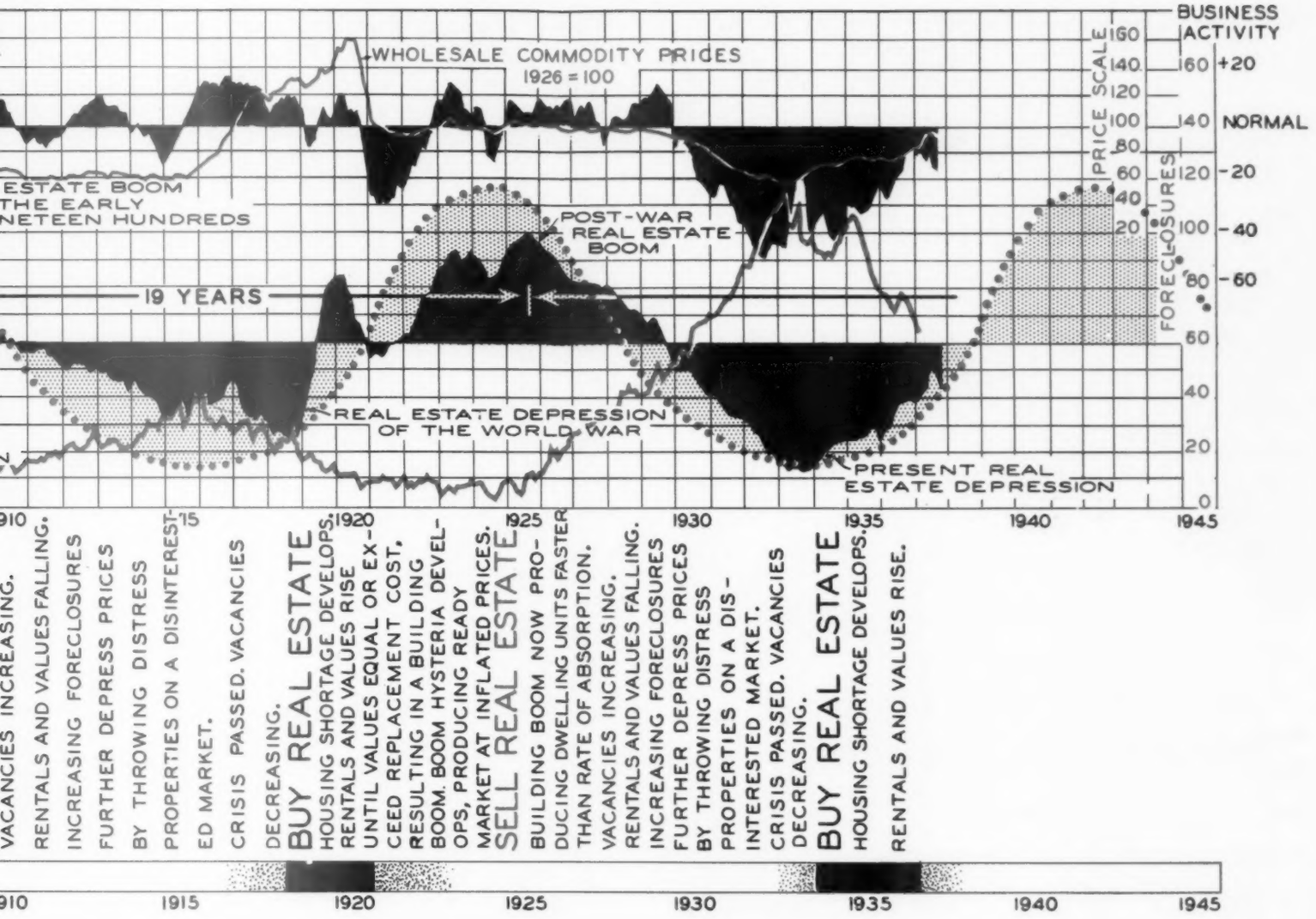
THAN RATE OF ABSORPTION.
VACANCIES INCREASING.
RENTALS AND VALUES FALLING.
INCREASING FORECLOSURES
1875
1880
1885
1890
1895
1900
1905
1910

line as it did in the period from 1881 to 1886; but sooner or later we believe an irrational boom will develop similar to the eight booms we have shown in the past. It will be noticed from our former reports and from "The Coming Boom in Real Estate"(2) that we have never expected this boom to develop in the next year or two. In "The Coming Boom in Real Estate" on pages 9 and 10 we indicated that we believed this boom would reach its height in 1943 or 1944. In a study published in December, 1936,(3) we indicated that we thought there might be one or two reactions before we went into the real boom. We said at that time:

"It is hard to tell at the present time whether or not we have been too conservative in placing the real boom as late as we show it here. It is conceivable that it might occur several years earlier. We would not be surprised, however, if the recovery of real estate did not show a somewhat similar reaction to that preceding the real estate boom of the nineties or the real estate boom starting in 1904. It will be noticed in both these cases that real estate activity hovered around the normal line before it shot into the irrational boom. A somewhat similar thing happened in 1919 and 1920 following the Armistice, before we went into the tremendous period from 1922 to 1929."

We believe that we are nearing the end of the eighth buying period for unusual profits on average pieces of real estate.



(1) "The period from 1795 to 1870 on this chart was drawn in the following fashion. From old newspapers, magazines and books we have found frequent references to real estate booms and depressions in the past. We find, for instance, that in 1795 frequent references were made to land speculation as an integral part of the boom which was then under way. This boom seems to have collapsed three or four years later, and until 1815 we find no further references to real estate boom conditions. However, in that year again we find references to heavy speculation in land. This period seems to have lasted for a longer time in the South than it did in the North, but by 1819 real estate values were shrinking quite rapidly. We find no further general allusions to boom conditions in real estate until 1835, when another period of active land speculation began. The panic of 1837 caused speculation to drop very rapidly, with a slight revival in 1839. The next big real estate boom in the United States was in 1852, culminating in the panic of 1857. We find no further references until the early seventies, as shown on the black portion of the chart.

"Considerable apologies are offered for the early part of this chart. Our outlining of these booms and depressions is purely an estimate based only on the general statements of conditions which we have read. They are not measured in any way, nor do we even know that all of them occurred at substantially the periods shown. We can find no authentic records of any other booms during this interval.

"Real Estate Analysts,Inc.,hopes to reconstruct the real estate past on a measured basis over the entire period of this chart,but it will be many years before our work on this can be completed, as we must first painstakingly measure real estate activity month by month in the principal cities. We can offer no assurance that, when this work is completed, the areas will even closely resemble the shapes which we have now estimated from the only data available. We are positive, however, that the peaks are approximately located, and this is the primary thing of interest to us at the present time."

(2) "The Coming Boom in Real Estate" by Roy Wenzlick; Simon and Schuster, Inc. (1936).

(3) The Real Estate Analyst, December, 1936, page 652.

URBAN FORECLOSURES

INDEX 1934=

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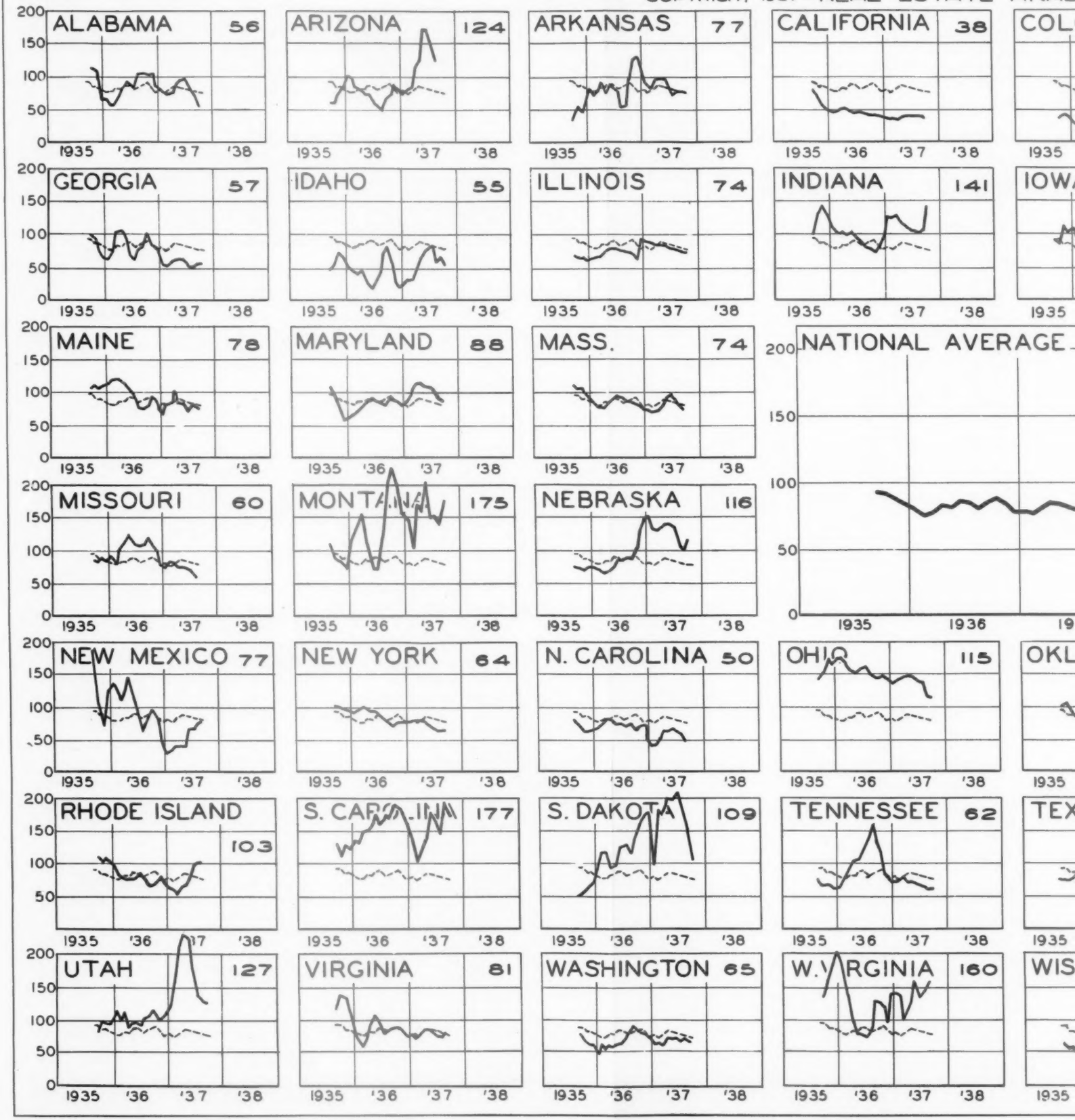

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1934=100

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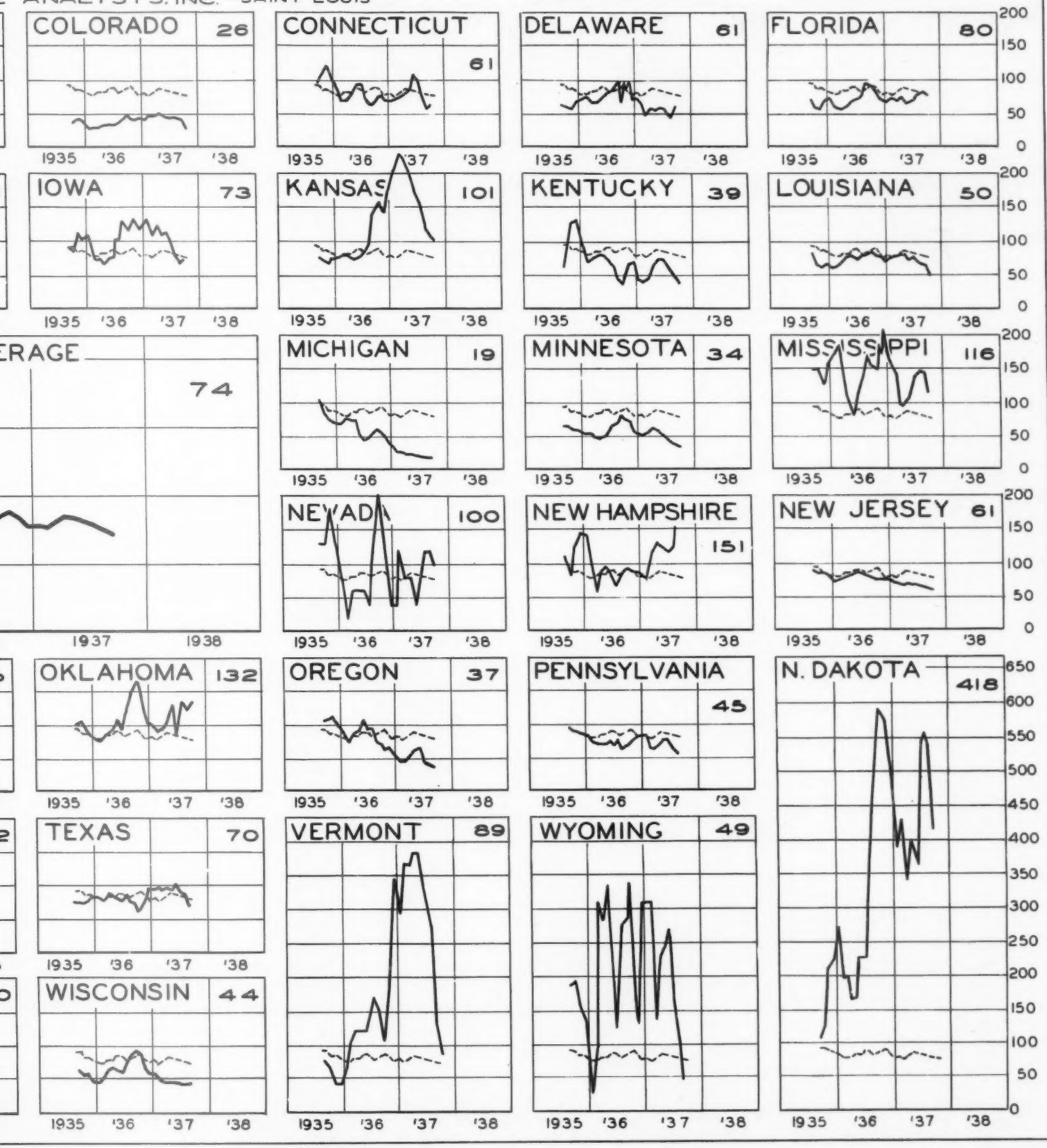
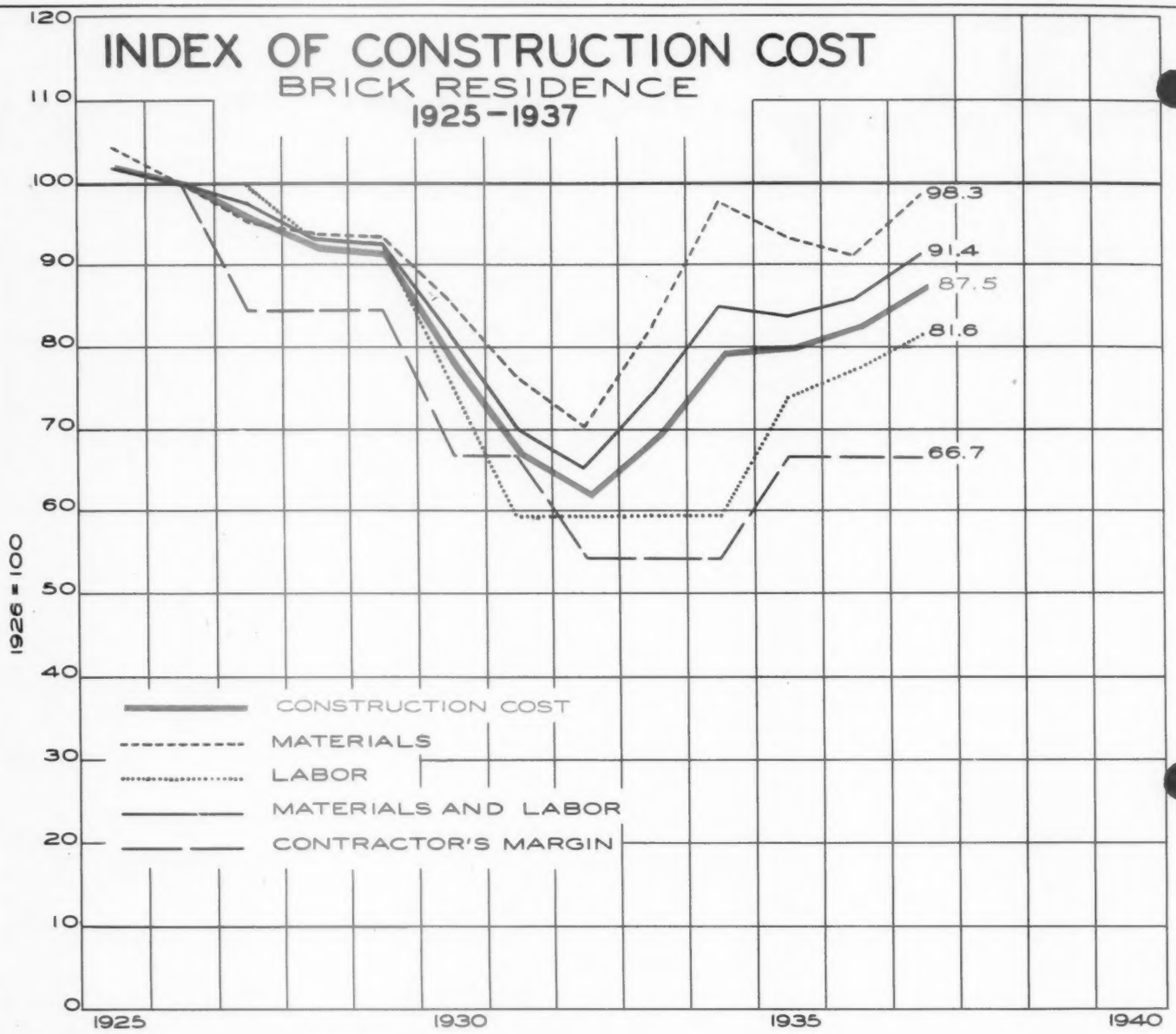
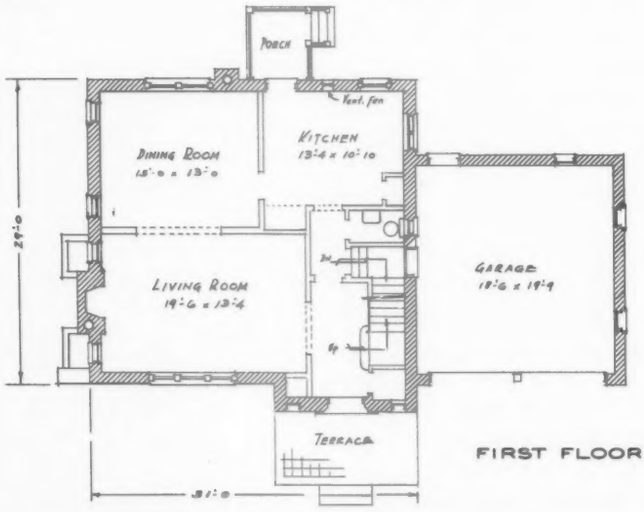


INDEX OF CONSTRUCTION COST

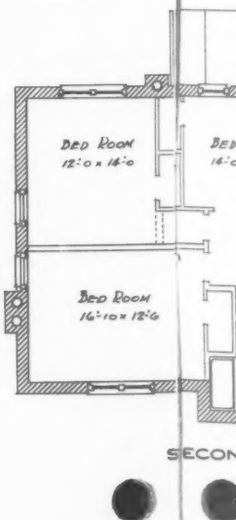
BRICK RESIDENCE

1925–1937





FIRST FLOOR PLAN

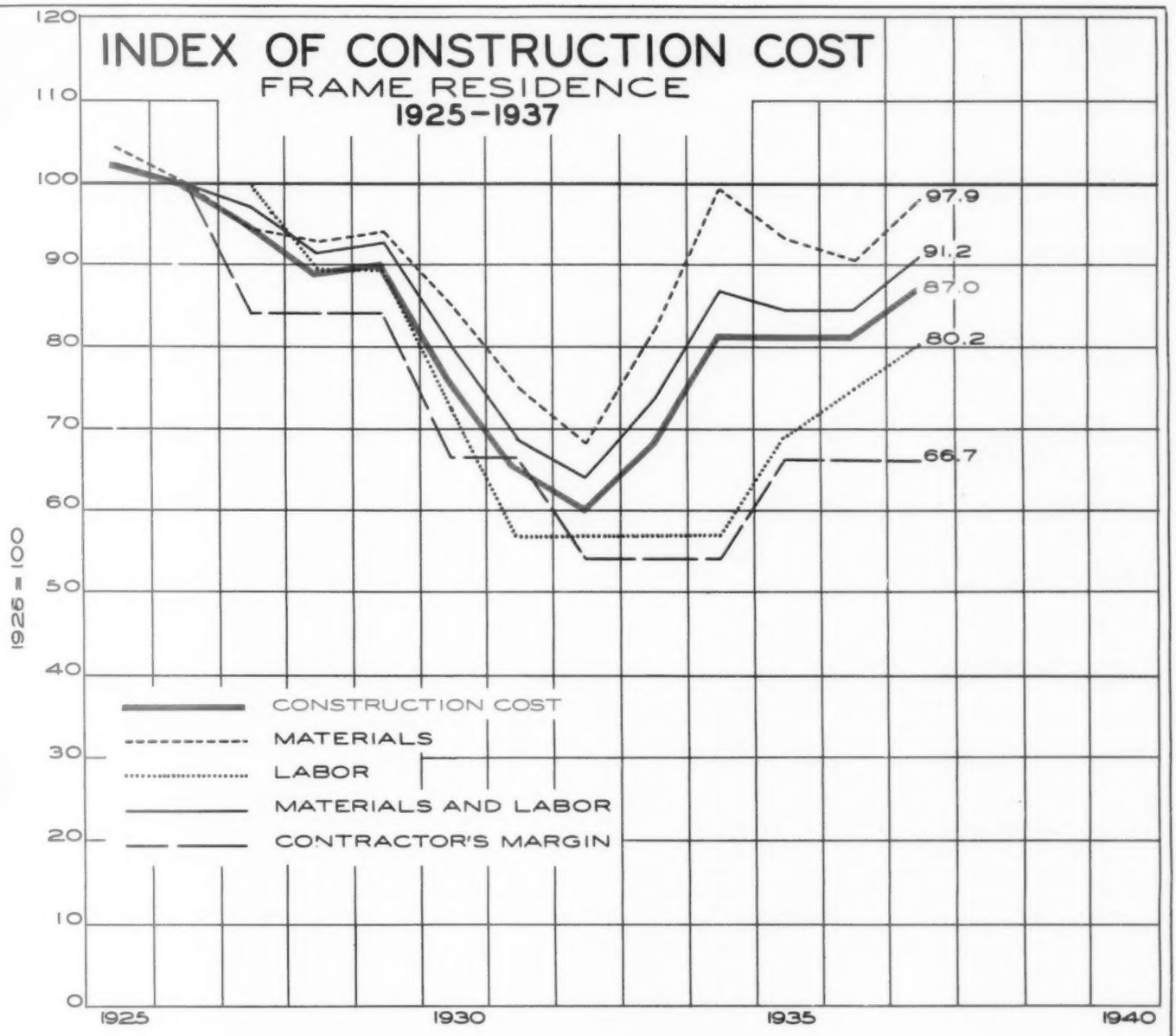


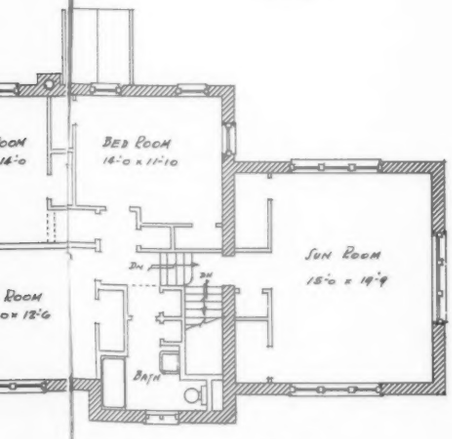
SECON

INDEX OF CONSTRUCTION COST

FRAME RESIDENCE

1925–1937





SECOND FLOOR PLAN

FRONT ELEVATION

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES
1930-1937

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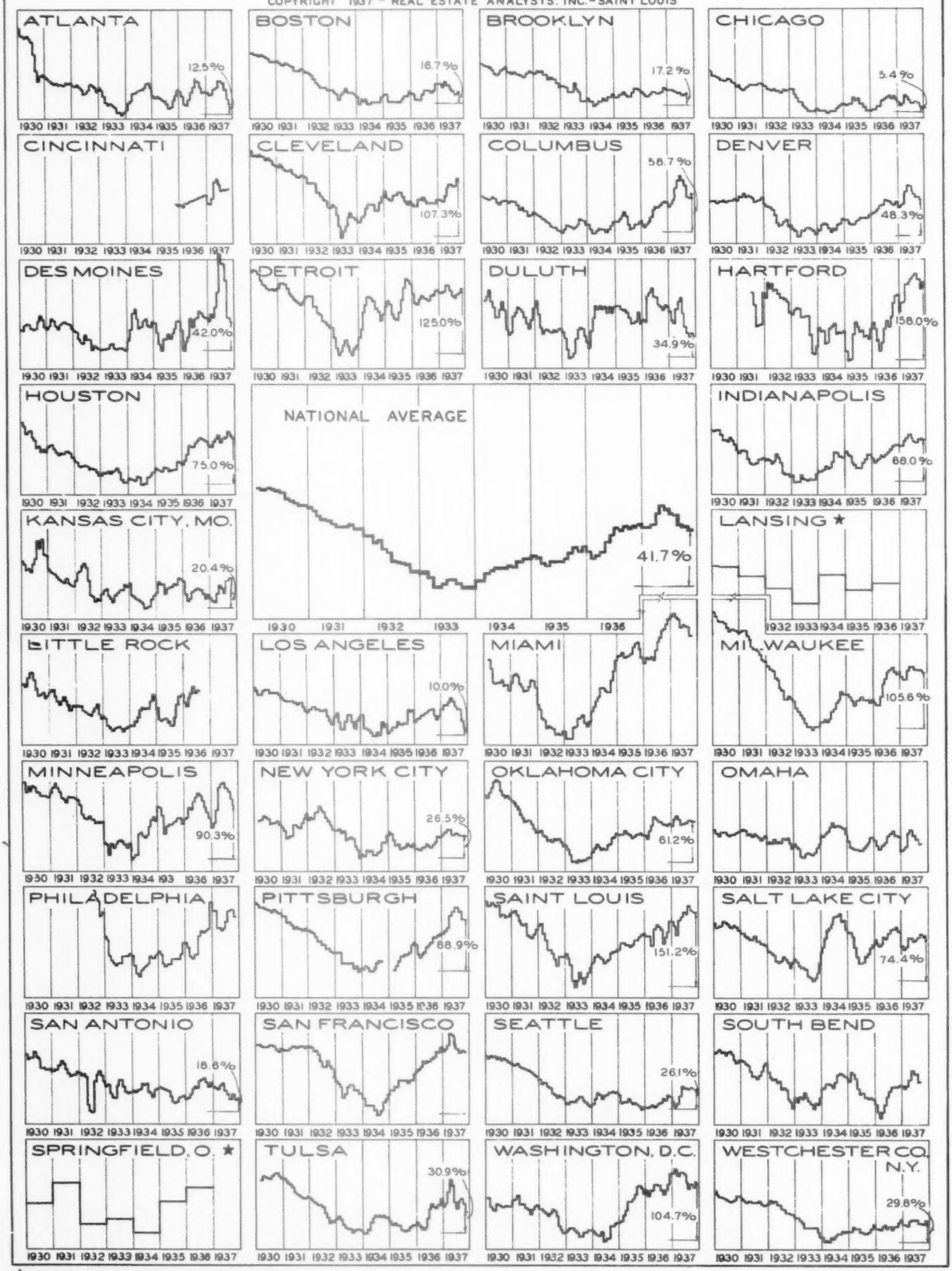
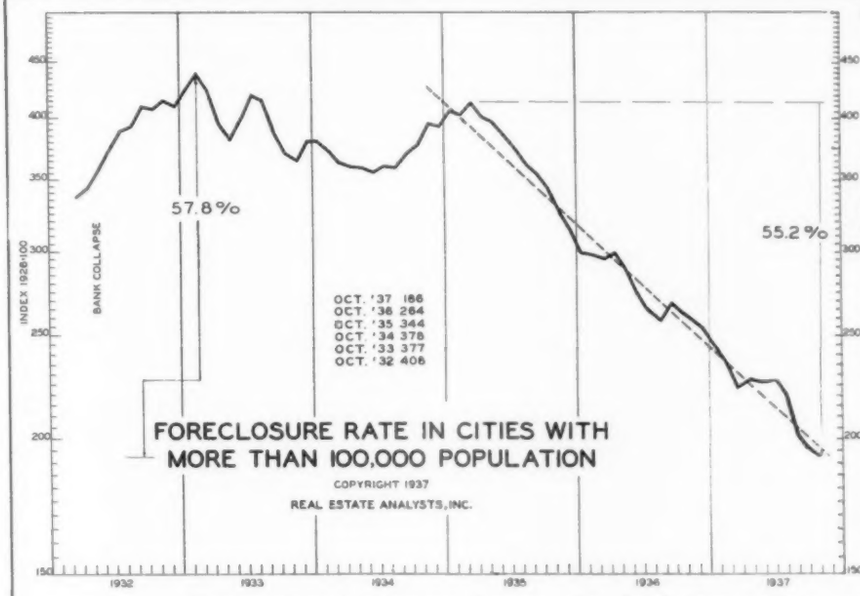
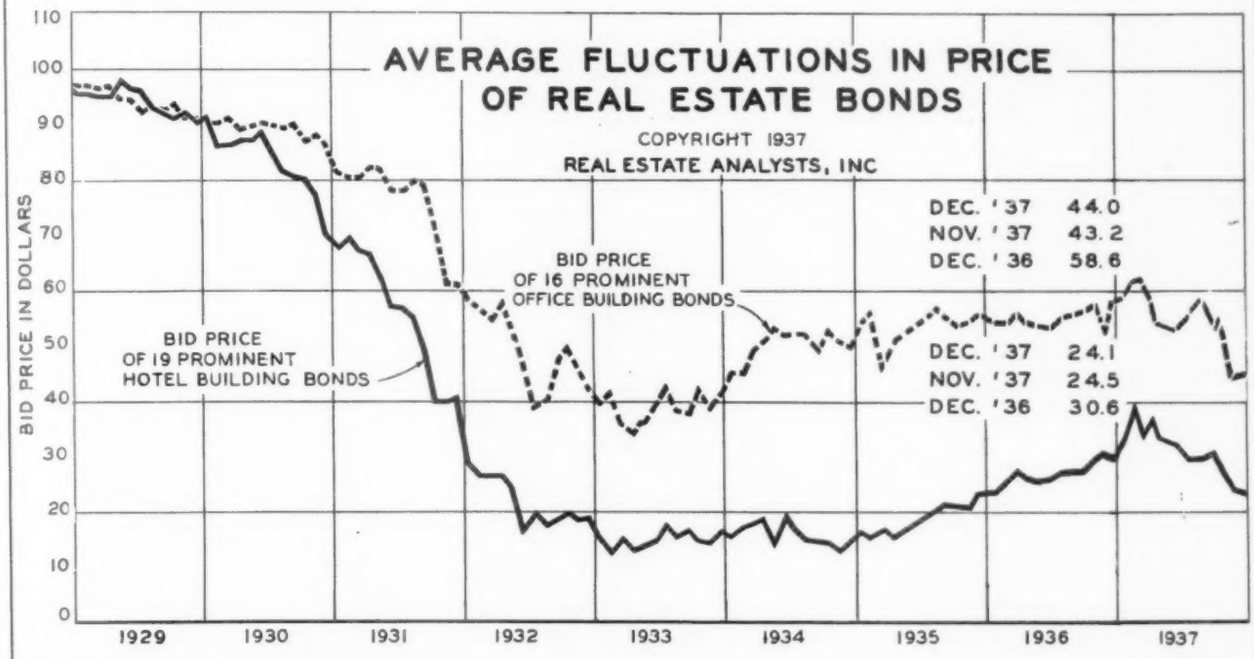


★ MONTHLY FIGURES NOT AVAILABLE

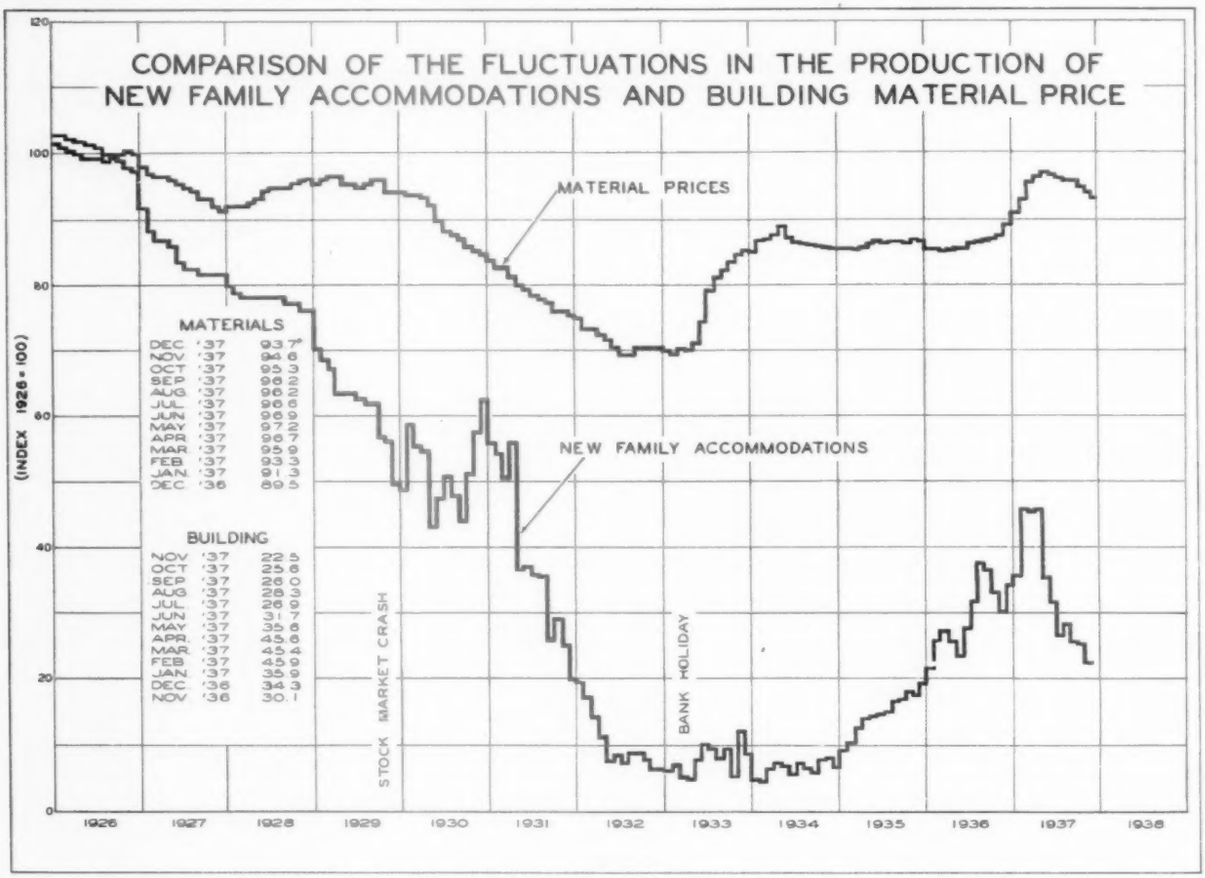


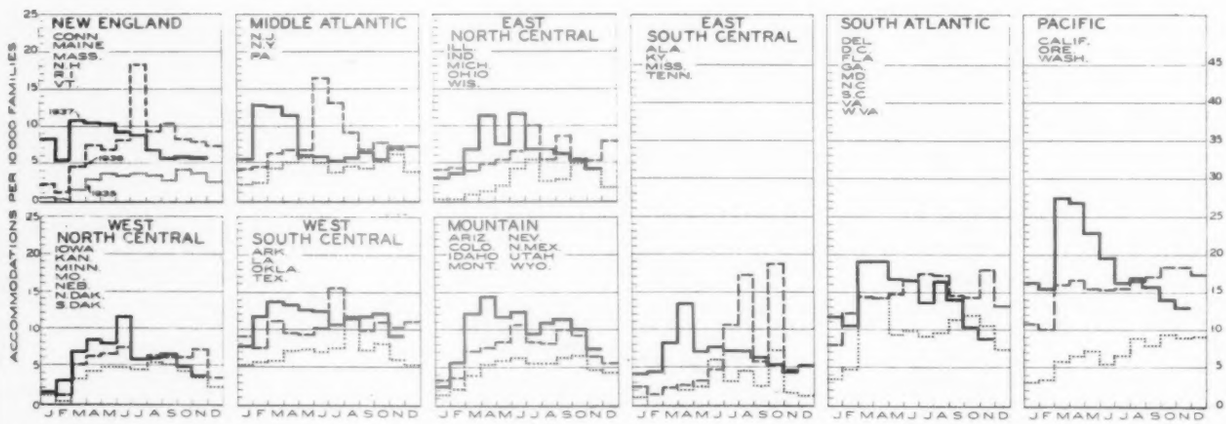
THE chart to the left showing the monthly fluctuations in the foreclosure rate in cities having more than one hundred thousand population should not be confused with the charts showing urban foreclosures on pages 842 and 843. These charts include smaller cities and towns, and it will be noticed that the movement of the national average is quite different.

The chart above is corrected for seasonal. It will be noticed that the foreclosure line is continuing to drop in spite of the recession in general business.



THE chart above shows the average fluctuations in the bid prices of office and hotel building bonds. The buildings used are only those on which quotations can be secured monthly. The office building list includes the following: Broadway Motors, Bryant Park, Bush Terminal, Carbide and Carbon, Chesebrough, Chrysler, Cleveland Terminal, Equitable (N. Y.), Graybar, Grant, Liggett, One LaSalle Street, Postum, Textile, Wanamaker (Phila.), Woodbridge. The hotel list is composed of issues of the following: Bowman-Biltmore, Eastern Ambassador Hotel, Eppley Hotels, George Washington Hotels, Hotel Lexington, Hotel Sherman, Hotel St. George, La Salle Hotel, Lord Baltimore, National Hotel of Cuba, Palace Hotel, San Francisco, Park Central Hotel, Pitts Hotel, Savoy-Plaza, Sevilla-Biltmore, Sherry-Netherland, Stevens Hotel, Waldorf-Astoria.





THE chart at the top of the page shows the fluctuations in building material prices in the United States and in the number of new family accommodations built per month per 10,000 families. The building figures are corrected for seasonal fluctuation and both lines are charted as percentages of the 1926 level.

Building material prices have dropped 3.6% from the high point of last May. This index is based on wholesale figures, and some of this drop has not yet been reflected in the retail prices. During this same period the number of new family accommodations built per month per 10,000 families has declined by 51%. The nine charts showing building by regions are not corrected for seasonal.

NO. 371

CONFIDENTIAL BULLETIN

PUBLISHED IN THE INTERESTS OF THE REAL ESTATE INVESTOR BY

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REAL ESTATE ANALYSTS, INC.

Real Estate Economists, Appraisers and Counselors

REAL ESTATE ANALYSTS INC.

SAINT LOUIS

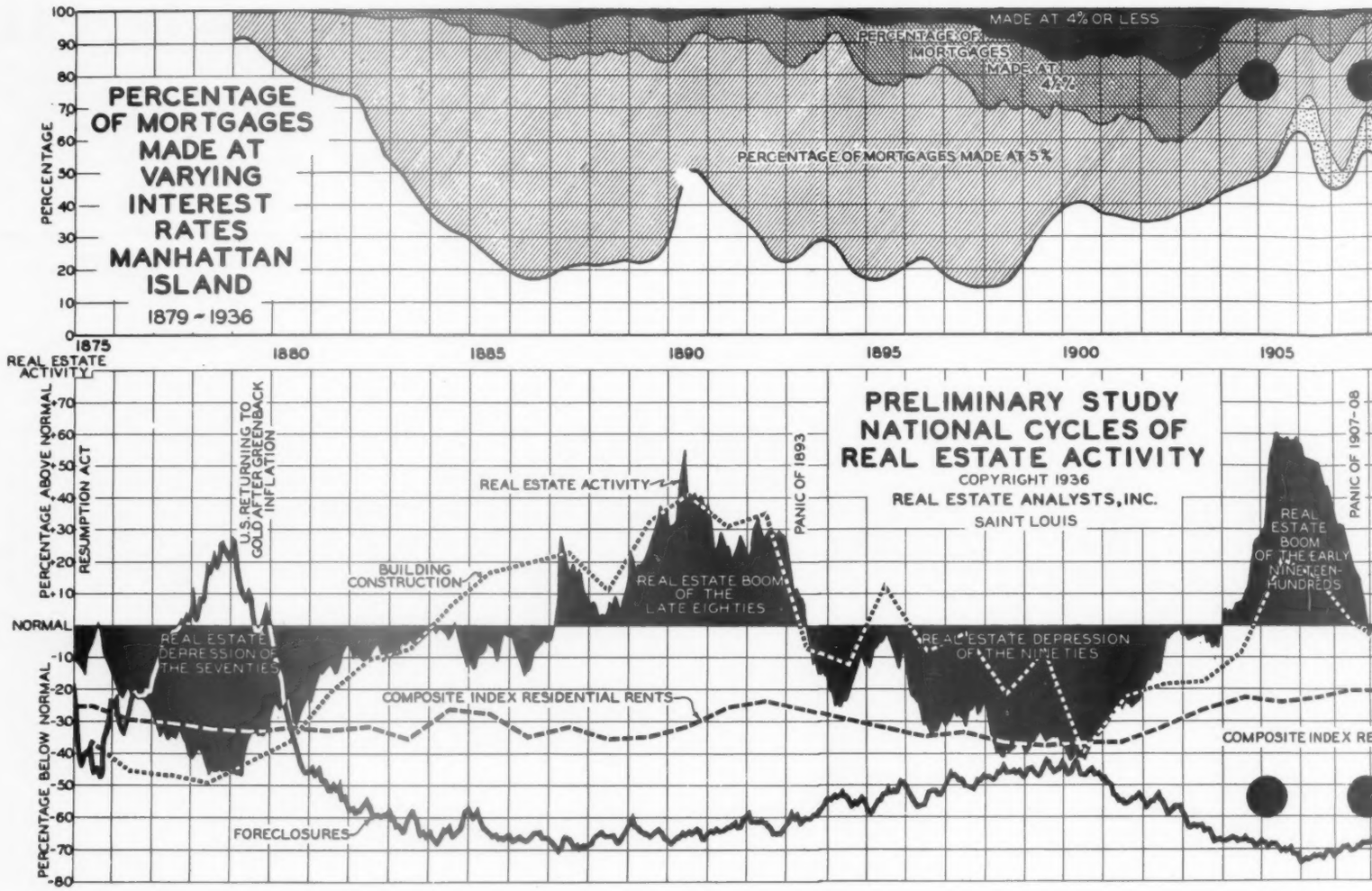
THE FUTURE OF INTEREST RATES

MANY of our clients are vitally interested in the future of interest rates on real estate mortgages. We believe that if we are to estimate future interest trends it is wise first to measure trends in the past. It will be possible from a measured study of this past experience to determine those factors which have apparently been most important in controlling interest rates. Many of those factors are present today and can be forecast with reasonable accuracy for the next few years. The final question becomes,then, the influence of the new factors in modifying those trends which would otherwise normally be expressed.

In an effort to reconstruct the past experience on interest rates we have gone to the records and have examined the interest rates carried on all resl estate mortgages each quarter made on Manhattan Island from 1879 to the present. All mortgage extensions, consolidations, and agreements were eliminated, but purchase money mortgages were retained in the final tabulation. We realize that the inclusion of purchase money mortgages in a period like the present increases the percentage of mortgages made at lower rates of interest, as it is quite apparent from our figures that during the past few years a large number of mortgage institutions, in order to dispose of property they consider undesirable,have been selling properties with a heavy purchase money mortgage at a rate of interest much below the rate they would accept on a new loan. This was also true to some extent in the early nineteen hundreds when property accumulated during the big depression of the nineties was being liquidated.

The chart on the back page shows the average interest rate on all mortgage loans made on properties on Manhattan Island from 1879 to 1936. This rate is contrasted with the dollar volume of new mortgages recorded on Manhattan Island.

A close inspection finds a number of interesting similarities. From 1885 to 1890 interest rates were recovering from the rapid drops of the early eighties. The rise in interest rates was particularly rapid during the latter part of this period. This increase in interest rates was undoubtedly caused, at least to some degree, by the rapid rise in mortgage volume at that time, as shown on the lower chart. Interest rates again hit a very low spot in 1898,recovering to a temporary peak in 1900. This seems a logical result of the increasing mortgage volume from 1897 to 1899. Interest rates then went to a very decided peak in 1906, accompanying a tremendous increase in mortgage financing from 1900 to 1905. In 1918 the dollar volume of mortgages set a new low, from which it bounded to a new all-time high in 1925. This was accompanied by a rapid rise in the average interest rate. From 1929 on, the general trend in interest rates has been down, as has been the trend in the volume of new mortgage financing.



Financial panics seem to have a tendency to drive up interest rates temporarily. This is quite apparent in the panics of 1893, 1907, and 1929.

There can be no question of the fact that the volume of new mortgage financing will increase rapidly during the next five years, simulating to some degree the rapid rise from 1918 to 1925. Will this rapid rise result in a marked upturn in the average interest rate? If it doesn't, it will be the first time over the entire period of our study that rising volume did not result in an increase in the rate of interest, as can be seen from the chart on the last page. We believe that the government cannot prevent this rise.

Another more interesting charting of these same figures shows on the long chart separate percentages for mortgages made at each different rate of interest. There are a number of interesting things shown by this long chart. First is the fact that in the big depression of the nineties a smaller percentage of the mortgage loans was made at 6% than has been made at that figure during the present depression. Second, undoubtedly a portion of the black area in the depression of the nineties (mortgages made at 4% or less) and the present depression is due to purchase money mortgages. In the relatively near future the percentage of loans made at 4% or less will decrease just as it did as we went into the active real

333.3
R 229
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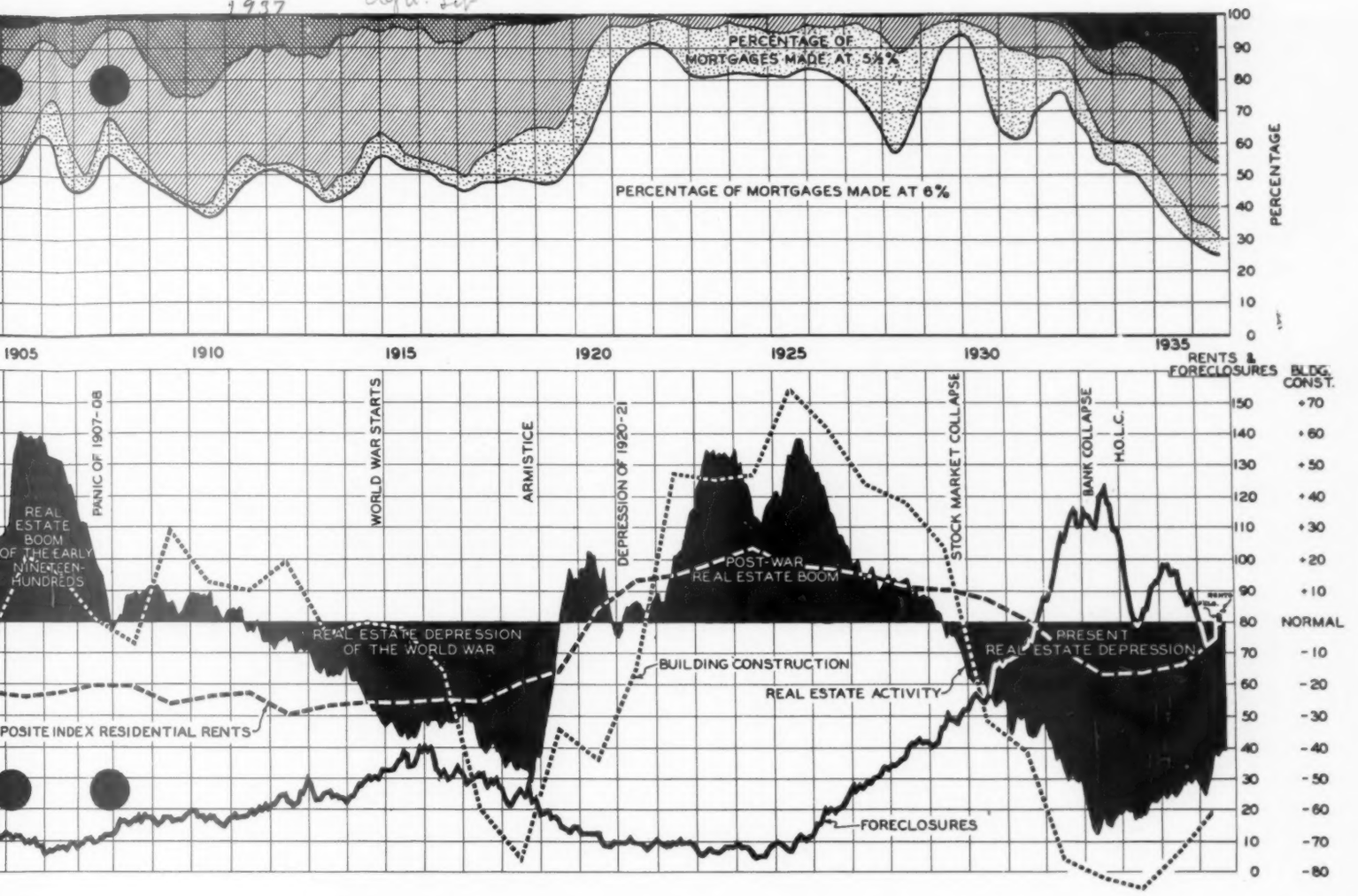
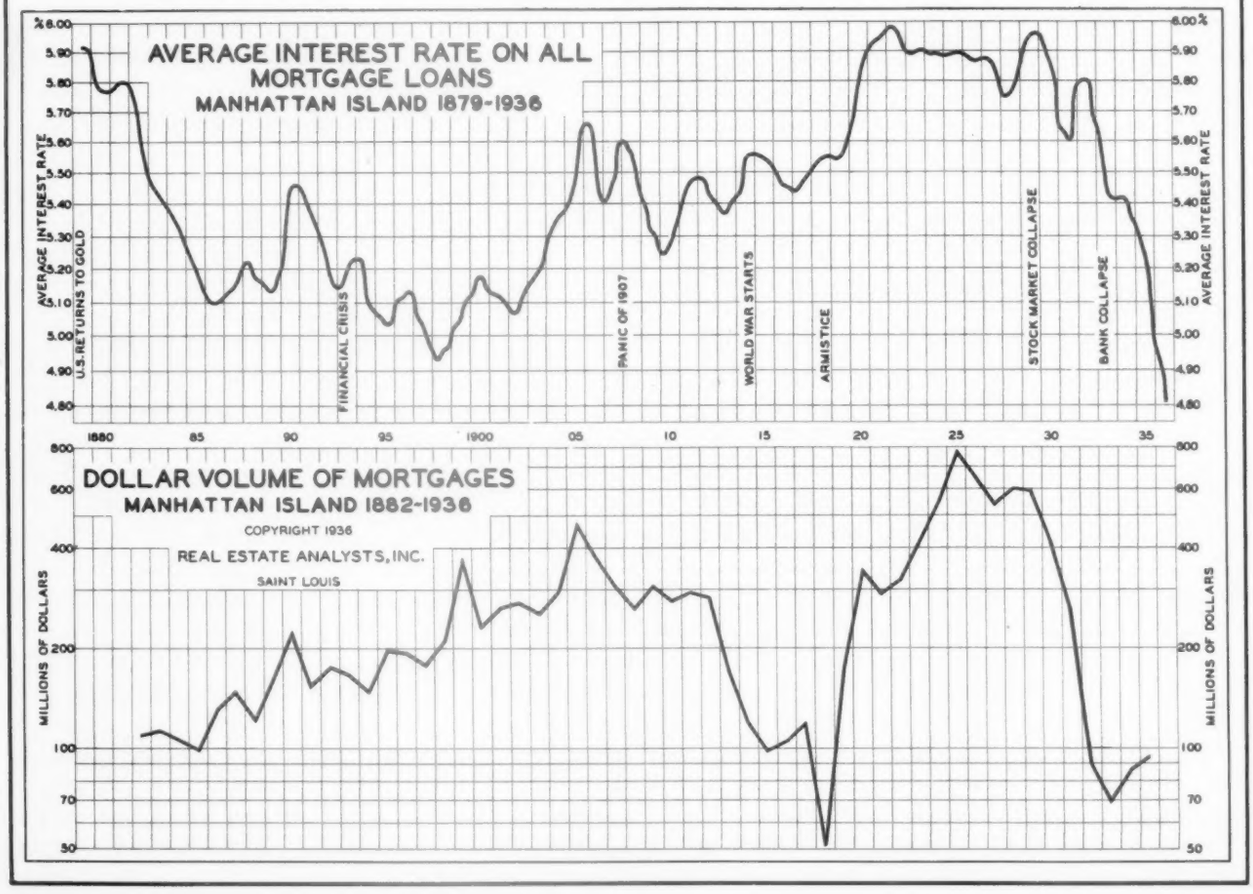


estate market in the early nineteen hundreds. Some general conclusions we have reached as a result of this study are as follows:

Interest rates are the result of the supply of and demand for money available for real estate financing. Increased earnings of real estate would make real estate more desirable as security for loans, having a tendency to increase the supply of mortgage money attracted to this field. On the other hand, an increase in rents and prices would increase the amount of mortgage money necessary, as eventually properties would carry mortgages proportional to their new values. All other things being equal, if real estate prices in the United States were to double, the demand for mortgage money within a period of from five to seven years would much more than double, due not only to the necessity of financing these properties at the new price levels but also to the financing of the large volume of new construction which would inevitably result. It seems to us that the increase in real estate rents and values will far more than offset in its demand for increased mortgage money the increase in mortgage money which would naturally flow to real estate because of its better earning position. This will be particularly true because of the fact that, at the time when real estate is increasing in price, industry, due to greater industrial production, will be back in the active borrowing field. These factors lead us to believe that the general trend of interest rates in the next five years will be up.

What is the effect of interest rates on rents and values? We believe that a low interest rate will tend to lower rents. The reason for this is, of course, that, as it becomes possible to build new buildings which will rent for a sufficient amount to pay a return on the investment at the lower interest rate, these buildings will offer direct competition to buildings built and financed with higher rate money. An increase in the interest rate will tend to increase rents by making it unprofitable to build until rents have advanced to the point where they will apparently show a return on the investment at the higher interest rate.

Over a long period of years we believe that the fluctuations of interest rates do not have a great effect on real estate values even though they do have this effect on rents. If we go into a market with interest rates much higher than their present level, these higher interest rates will not be limited to real estate mortgages but will be extended gradually to all types of loans. This will bring about a change in the capitalization rate at which all types of investments are figured. If a $25 annual yield at the present time is considered an adequate return on a very conservative $1000 bond; then if interest rates should double, $50 will be the normal adequate rate on a conservative bond. As this change takes place, capitalization rates on all types of investments will gradually tend to change in the same direction so that doubling the rate in a market where very much higher interest rates prevail will not succeed in doubling the value, just as a $50 income in a high interest period represents no greater amount of principal than does $25 in a lower interest period.



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PUBLISHERS The Real Estate ANALYST

PUBLISHED IN THE INTERESTS OF THE REAL ESTATE INVESTOR BY

REAL ESTATE ANALYSTS, INC.

Real Estate Economists, Appraisers and Counselors

REAL ESTATE ANALYSTS INC.

SAINT LOUIS

INVESTMENT AND SPECULATION IN REAL ESTATE

THE interests of the investor and of the speculator are often diametrically opposed. The speculator is interested primarily in buying to resell at the maximum profit in the shortest possible time. The investor is interested primarily in the income producing characteristics of the property. The speculator ordinarily operates on a narrow margin. The investor generally has a substantial equity. The speculator is interested primarily in short price fluctuations. The investor is interested primarily in value. The speculator is constantly asking himself, "What can I get for this property?" The investor asks himself, "How much is this property worth?"

In ordinary periods of the real estate cycle the investor is a greater asset to the community. He is interested in its permanent growth. His profits are made through efficient management of properties and through increments in value over a long period of time, made possible by increasing population and change of use. The profits of the speculator are not made out of the property but come out of an inflation in price, which is often later paid for by the person holding the property at the time when the deflation comes.

It is difficult to distinguish between the speculator and the investor in the real estate field today, as it would have been to have classified the purchaser some years ago of Liberty Bonds at 84. When the entire market is undervalued, the speculator becomes an investor and the investor becomes a speculator, as the two play for both income and appreciation of principal.

If the main difference between the speculator and the investor is taken to be the degree of risk involved, we wonder if any person intelligently buying real estate today could be said to be running great risks. There is a regular pattern of recovery from each great depression. The stock market, which is primarily an indication of confidence in the future, starts advancing first. This is either followed by or accompanied by an increase in wholesale commodity prices. Still later the cost of living advances, and last in the procession is the increase in real estate values. The stock market has already advanced to a level three times the depression lows. Commodity prices have risen 40.8%. The cost of living has advanced by 23.6%. Real estate is just starting to feel the improvement, which the unescapable connection of cause and effect makes inevitable. Real estate today, if properly selected, offers an investment of great safety, of assured income, with the almost certain probability of a speculative advance in the capital investment.

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RESIDENTIAL BUILDING IN THE UNITED STATES

THE charts in this report show the number of new family accommodations built per month per 10,000 families in each of the ninety major metropolitan areas of the United States. On those charts where a dot follows the name of the city, the principal suburbs have been included, at least during the later years. In many cases it was not possible to get the figures on suburban areas for earlier years. It will be noticed that on some charts, Boston for instance, four other cities are named on the chart--Cambridge, Lynn, Lowell, and Somerville. Each of these cities contains 100,000 people or more, but it is considered as a part of the Boston metropolitan area. In addition many smaller communities not listed are included. In all cities the number of family accommodations provided by the so-called low cost housing projects constructed by the PWA has been eliminated from the charts.

Two things are quite noticeable on these charts: (1) the wide variations in the amount of building in the various metropolitan areas during the last boom; and (2) the wide variation at the present time in the resumption of building in the various communities. The variation during the last boom ran from 12.7 new family accommodations built per 10,000 families per month in Bridgeport, Conn., to 545 new family accommodations per 10,000 families in Miami. Now the variation runs from 0.4 of a housing accommodation per month per 10,000 families in New Bedford, Mass., to 65.8 new family accommodations per 10,000 families in Miami.

Why this wide difference in new building in relation to the number of families in these communities, both during the last boom and at present? We have always maintained that the volume of building in any community depends on the relationship of rents and values in that community to the cost of new building. If rents and values are high in relation to costs, there is a strong incentive to build as a profit can be made on each building constructed. If rents and values are low in relation to construction costs, only "irrational" building will result.

In rapidly growing cities vacancy is absorbed more quickly than it is in matured and slowly growing communities; and since rent and value levels depend on the relationship of the demand for space to the supply of space, in rapidly growing cities, if building costs are higher than rents and values, rents will rise faster than they will in cities where the rate of growth is much slower.

During 1937 the volume of new building will continue to show the wide variation in rate in various cities which it has shown in the past, but in practically all cities the relationship of construction costs to rents and values is becoming more favorable as rents and values are increasing at a more rapid rate than construction costs.

FLUCTUATIONS IN THE NUMBER OF NE

BUILT PER MONTH - PER 10,000 FAMILIES - IN ALL CITIES HAV

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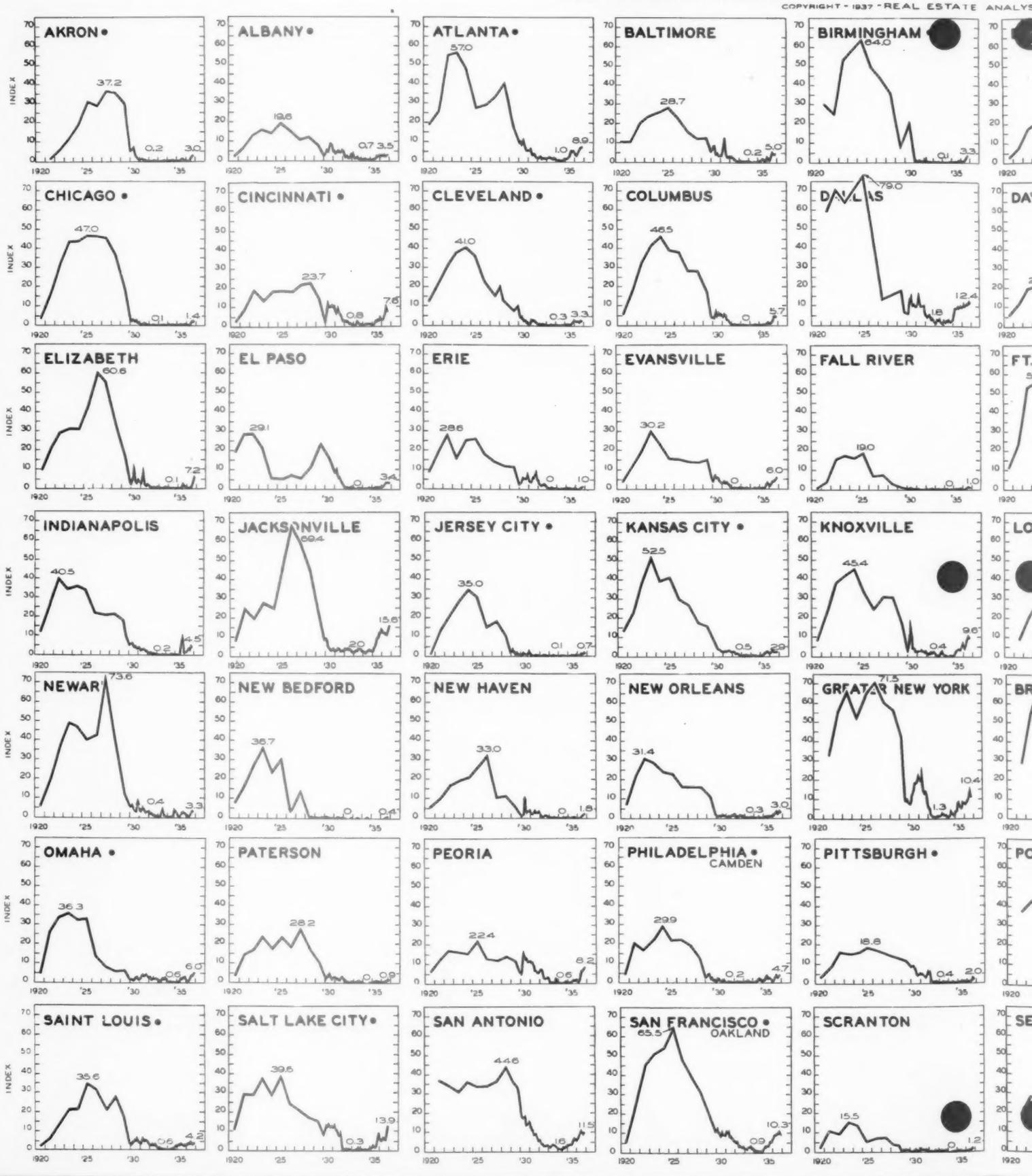
NUMBER OF NEW FAMILY ACCOMMODATIONS BUILT PER MONTH PER 10,000 FAMILIES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ALBANY • 19.6 0.7 3.5
ATLANTA • 57.0 1.0 8.9
BALTIMORE 28.7 0.2 5.0
BIRMINGHAM • 64.0 0.1 3.3
CHICAGO • 47.0 0.1 1.4
CINCINNATI • 23.7 0.8 7.6
CLEVELAND • 41.0 0.3 3.3
COLUMBUS 46.5 0 5.7
DALLAS 79.0 1.8 12.4
ELIZABETH 60.6 0.1 7.2
EL PASO 29.1 0 3.4
ERIE 28.6 0 1.0
EVANSVILLE 30.2 0 6.0
FALL RIVER 19.0 0 1.0
INDIANAPOLIS 40.5 0.2 4.5
JACKSONVILLE 69.4 2.0 15.6
JERSEY CITY • 35.0 0.1 0.7
KANSAS CITY • 52.5 0.5 2.9
KNOXVILLE 45.4 0.4 9.6
NEWARK 73.8 0.4 3.3
NEW BEDFORD 36.7 0 0.4
NEW HAVEN 33.0 0 1.8
NEW ORLEANS 31.4 0.3 3.0
GREATER NEW YORK 71.5 1.3 10.4
OMAHA • 36.3 0.6 6.0
PATERSON 28.2 0 0.9
PEORIA 22.4 0.6 8.2
PHILADELPHIA • CAMDEN 29.9 0.2 4.7
PITTSBURGH • 18.8 0.4 2.0
SAINT LOUIS • 35.6 0.6 4.0
SALT LAKE CITY • 39.6 0.3 13.9
SAN ANTONIO 44.6 1.6 11.5
SAN FRANCISCO • OAKLAND 65.5 0.9 10.3
SCRANTON 15.5 0 1.2
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R OF NEW FAMILY ACCOMMODATIONS

CITIES HAVING MORE THAN 100,000 POPULATION IN 1930

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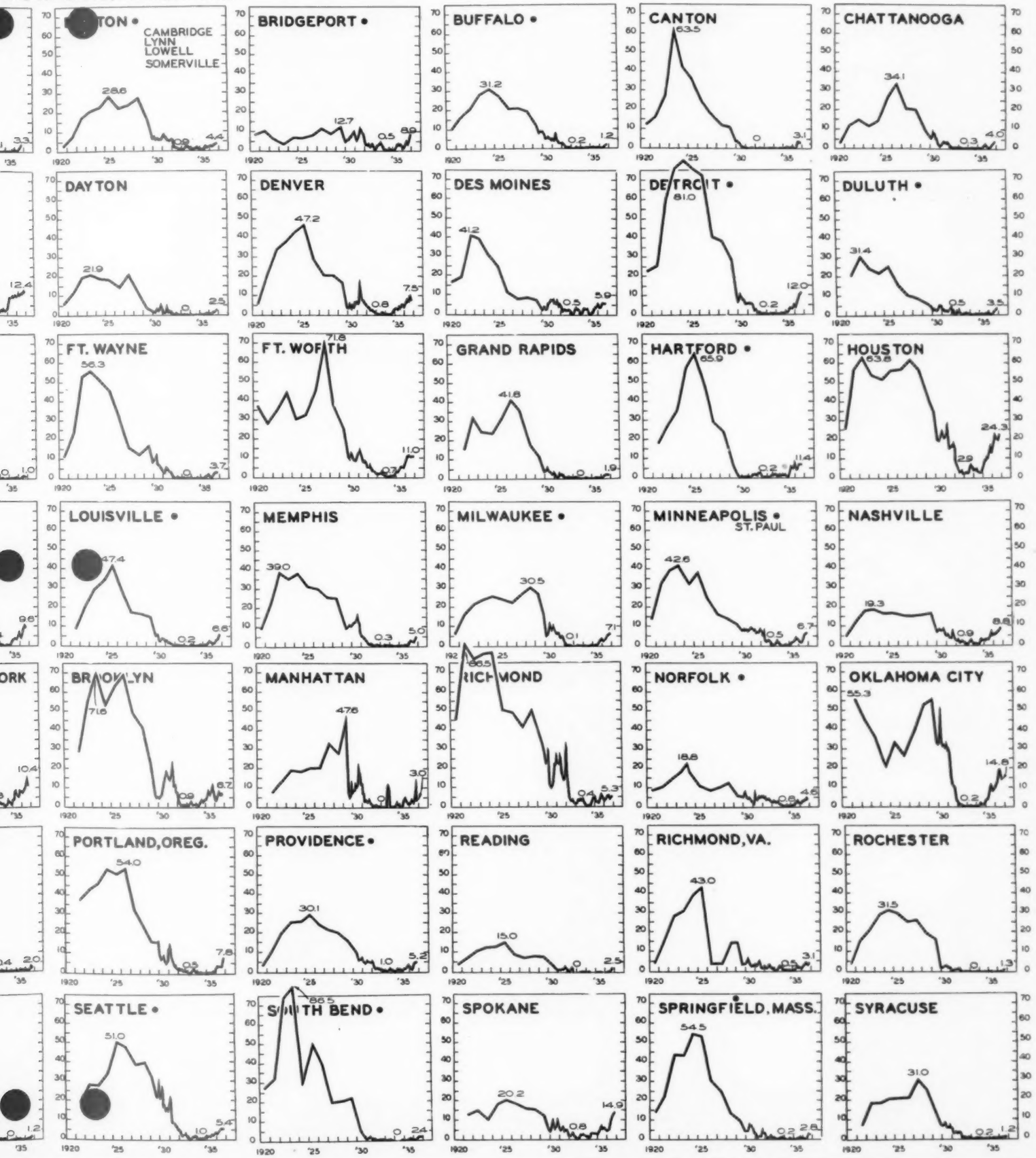

FLUCTUATIONS IN THE NUMBER OF NEW FAMILY ACCOMMODATIONS

BUILT PER MONTH - PER 10,000 FAMILIES - IN ALL CITIES HAVING MORE THAN 100,000 POPULATION IN 1930

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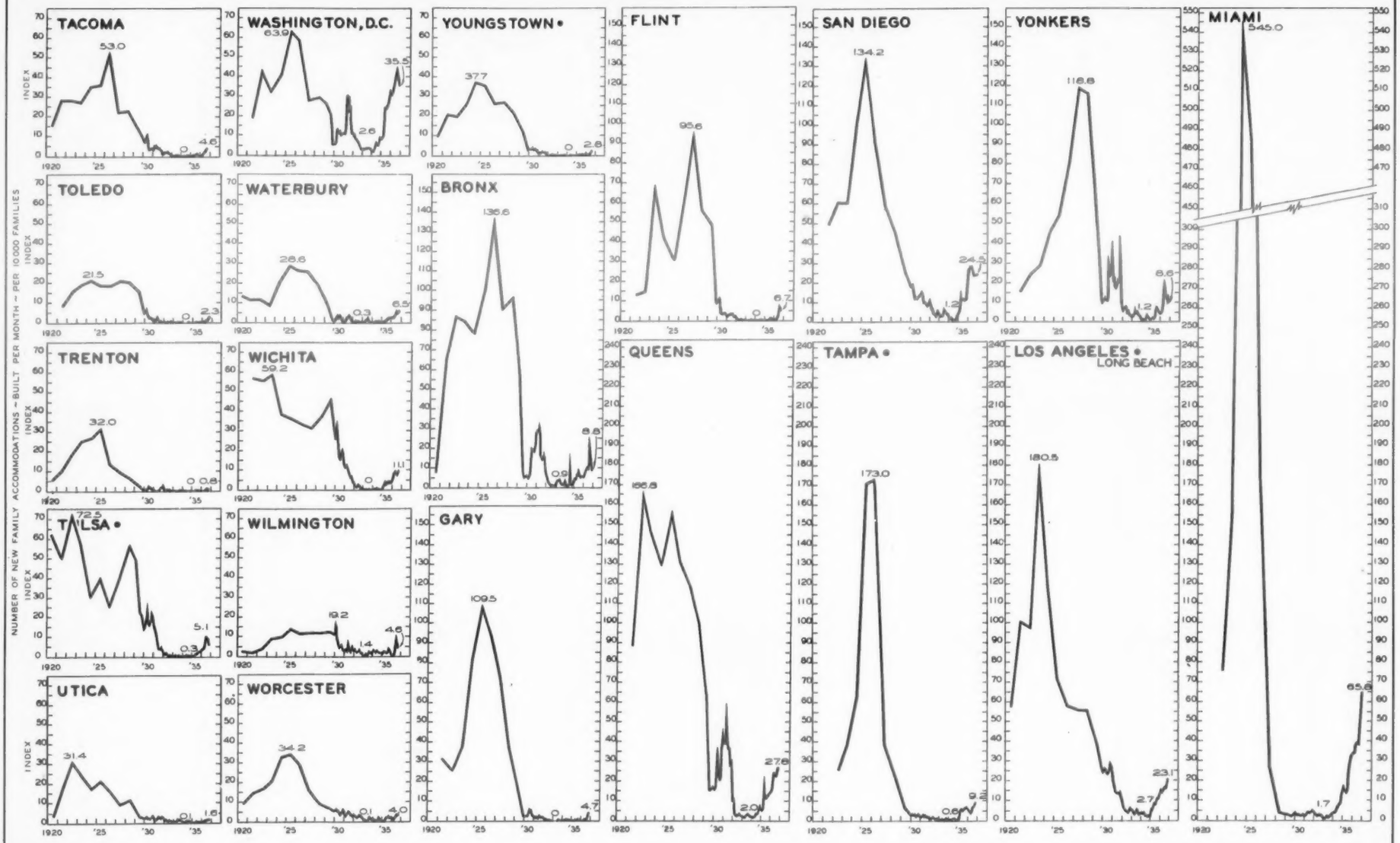
NUMBER OF NEW FAMILY ACCOMMODATIONS - BUILT PER MONTH - PER 10,000 FAMILIES



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SAINT LOUIS

REAL ESTATE TRUISMS

1. Vacant ground suitable for residential development in a city having an average rate of growth rarely increases in value fast enough to offset interest and taxes.

2. Other things being equal, the best investment in improved real estate consists in a building on a par with its surroundings. It is better to own a building slightly below the average of the neighborhood in quality than one slightly above.

3. Like use creates value; dissimilar use destroys it. This applies to all types of real estate, residential, industrial, and commercial. A similar buying appeal, by stores concentrated in a single block, will create higher front foot values than a dissimilar use. A similar type of residential development in a residential section will create higher values and maintain them longer than a mixed use. Tenants similar in type in an area will create higher values than tenants varying in nationality, race, or economic conditions.

4. Residential developments which are large in area will maintain their values for a longer period than smaller areas.

5. Everything else being equal, residential sections in which no vacant lots are available will decline in value unless the entire market is rising, in which case their increasing value will not be as great as the average increase.

6. Property practically unlimited in quantity is always limited in value. There is often a greater supply of real estate of some particular type than the community is able to absorb. The assumption that real estate always increases in value is true only of a relatively small number of parcels in congested areas where shifting conditions have made possible greater accessibility to potential customers.

7. Never assume that any piece of property is necessarily worth what it cost or what it would cost to replace.

8. Shopping districts in the downtown section of any city always move toward the center of purchasing power, which is either near the center of population or near the better class residential districts.

9. Prices of improved real estate are high when they are above the cost of replacement on a declining market. Prices of improved real estate are low when they are below the cost of replacement on an advancing market.

10. When the market price of any type of building declines below its cost

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of production (less the necessary adjustment for depreciation and obsolescence)the production of any additional space of that type will diminish until increasing demand causes the price to advance. When the price of any type of building advances above its reproduction cost (again making the allowance for depreciation and obsolescence), the production of any additional space of that type will increase until the excess demand is satisfied, at which time prices will start to decline.

11. In a rapidly growing city, demand for space will absorb quickly any excess which exists, forcing rents and values to a point determined by the amount necessary to pay a return on the current reproduction cost. In a community growing slowly, the vacant space on the market will cause rents and values to lag any increase in construction costs. Theoretically, a community could exist, losing population at a sufficient rate so that rents and values could remain stationary or decline at the same time that construction costs were advancing rapidly. The rapidity of rise of rents and values in any community in a period when construction costs are increasing will depend almost entirely upon the volume of new building necessary.

12. A lowering of mortgage interest rates will lower rents, but over a period of years will have comparatively little effect on values, as the capitalization rate will decline as interest rates drop. An increase in mortgage interest rates will raise rents but will have comparatively little effect on values over a period of time, as capitalization rates will increase.

13. An increase in real estate taxes will result eventually in an increase in rents, as new building will not go forward in any quantity until rents have advanced to the point where they will apparently yield enough <u>net</u> income to pay a return on the current replacement cost.

14. Everything else being equal, there is a greater tendency to shop at subcenters in the direction of the downtown district than at those in an opposite direction.

15. Shopping centers are apt to grow to larger proportions in districts inhabited by industrial workers than they are in districts occupied largely by office workers working in the downtown district.

16. It will require fewer square feet of shopping floor space in the future to service a hundred people than it has in the past due to the greater efficiency in merchandising introduced by the chain organizations. Poorly located stores will not share proportionately in a rise in rents and values, while rents and values of strategically located stores in logical subcenters will increase by a greater than average percentage.

17. Often a difference of fifty feet in location will make a difference of more than fifty per cent in value. Never assume that because a specific piece of property is adjacent to a high-value piece that it necessarily shares in its value.

ROY WENZLICK

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SAINT LOUIS

IS REAL ESTATE SPECULATION ETHICAL?

SEVERAL times in talks in various cities I have been asked by real estate operators whether in my opinion it was ethical to buy at the periods suggested by our charts, taking advantage of a distress market, and to sell at the periods when our charts indicated that values had reached the peak and were fairly certain to decline. In order to answer this question intelligently, let us look for a moment at the fundamental reasons why values are low in periods of depression and why at other periods they reach peaks from which they are sure to decline.

Prices of all commodities depend on the relationship of supply to demand. At the bottom of a period of depression, real estate has become so unprofitable due to high vacancies, low rents and high taxes, that the owners find themselves, either unable to continue to carry it, or so disgusted with its relatively poor showing that they no longer care to own it. This set of circumstances results in far more pieces of real estate being thrown on the market than the market at that time, in its disorganized condition, is able to absorb; or in other words, the supply of real estate greatly exceeds the demand for the purchase of real estate.

The wise investor who, in spite of the lack of confidence in the community, invests in real estate at a time when the lack of buyers is daily driving the price lower not only benefits himself but also performs a great public service in increasing the demand and thereby stabilizing the price in a panicky market.

Should the time ever come when a large enough percentage of persons become thoroughly inculcated with the general principles of real estate economics, real estate prices in depressions will not decline by so great a percentage.

In five or six years from now, from present indications, we believe that prices may be fairly close to the peak. If a large enough percentage of the owners of real estate, as prices continue upward, in spite of the fact that real estate is paying a splendid return on the investment and in spite of the fact that vacancies are low and rents are high, still offer their properties for sale, prices will not rise in the boom as rapidly and as far as they otherwise would.

Let us analyze this again on the basis of fundamentals. During the real estate boom, due to low vacancies and high rents, real estate is quite profitable and there is a heavy demand for it on the part of investors and speculators. On the other hand, because of its very fine current earning showing, comparatively few owners are willing to sell and the excess demand forces prices constantly higher until they reach levels out of

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all proportion to the long-term earning capacity of the property. As soon as a large enough percentage of property owners become well informed and far-sighted, more properties will be thrown on the market in boom periods, decreasing the intensity of the excess demand, and real estate booms will not go to such ridiculous extremes.

We believe that the conscientious real estate broker should advise his clients to sell during boom periods, but we are skeptical of two factors: first, whether many people would follow that advice were it given; and second, whether the broker himself will believe at that time that it is the time to sell.

Every boom period has always been a "new era" when, because of new factors not present in the past, "prosperity will continue on the new levels." The Bureau of Labor Statistics in Washington changed their indexes from the 1913 to the 1926 base during the last boom, as "we had permanently advanced to a new level." The same psychology will again maintain five or six years from now, and arguments just as convincing will be advanced to prove it. The closer government control of industry, the larger share of income paid to labor, the changes in our monetary and banking set-up, the government control of mortgage financing, and many other factors "will prove conclusively" that the new era has at last arrived and will continue without serious collapse. Even the economists and prophets of collapse will be unconsciously affected by the general spirit of the times and will start to doubt the validity of their own conclusions. If they persist in their opinions they will be decried as public enemies and destroyers of confidence until they are cowed into silence. Then when the last feeble cry has been drowned out by the enthusiastic hurrahing of those who see only a roseate future, the collapse will come as it has always come under similar conditions in the past.

It is my opinion that the man with mental courage and foresight sufficient to buy contrary to panic hysteria during a depression, and to sell when the general spirit of optimism would indicate that he is sacrificing splendid investments, is entitled to the profit he makes and renders a public service.

ROY WENZLICK

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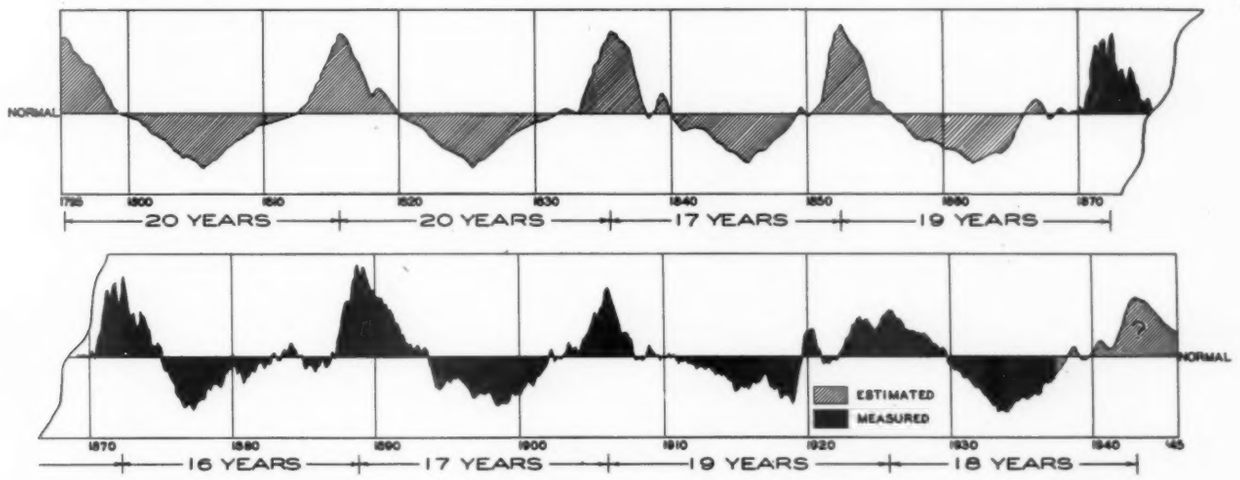
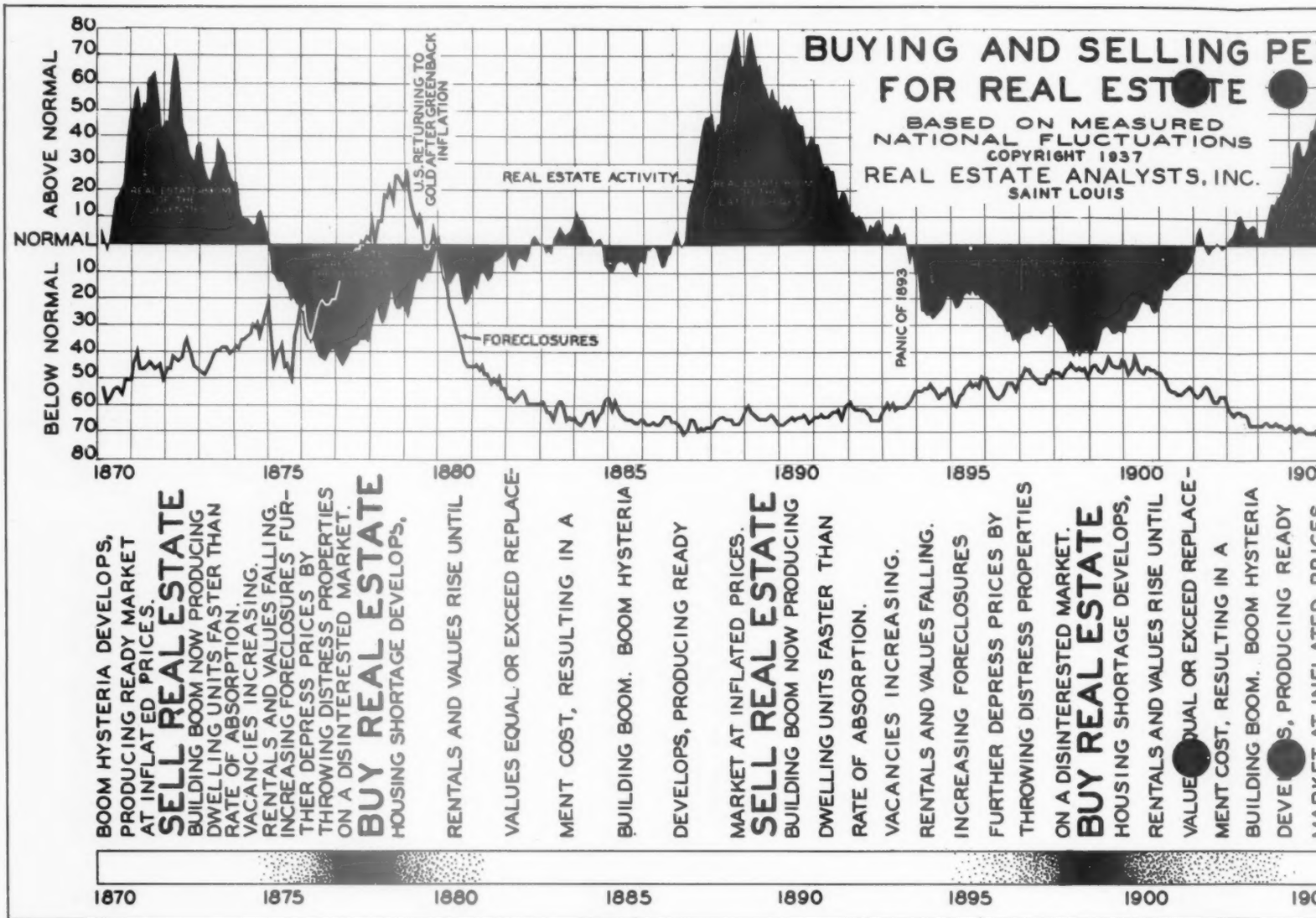


REAL ESTATE FOLLOWS A LONG CYCLE

THE chart above is an effort to trace real estate booms and depressions during the entire history of the United States. From 1795 to 1870, real estate booms and depressions are shown by the line-shaded area. From 1870 to the present, real estate booms and depressions are shown in black. From the present to 1945, our idea of the probable development of the next real estate boom is shown by line-shaded areas.

The booms and depressions from 1795 to 1870 were approximated from descriptions in old newspapers, magazines and books. We find, for instance, that in 1795 frequent references were made to land speculation. This boom seems to have slowly collapsed a few years later, and until 1815 we find no further references to real estate boom conditions. However, in that year again we find references to heavy speculations in land. This period seems to have lasted for a longer time in the South than it did in the North, but by 1819 real estate values were again shrinking quite rapidly. In 1835 we find frequent allusions again to boom conditions in real estate. The next big real estate boom in the United States reached its peak in 1852. The black areas on the chart are drawn from measured figures compiled by Real Estate Analysts, Inc., from all principal metropolitan areas.

While considerable apologies are offered for the early part of this chart, the significant thing which it proves in its entirety is that real estate follows a long cycle of from sixteen to twenty years in length. It appears to us that from the top of the last boom to the top of the next may be about eighteen years


BUYING AND SELLING PE
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BASED ON MEASURED
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ABOVE NORMAL
NORMAL
BELOW NORMAL
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REAL ESTATE ACTIVITY
FORECLOSURES
U.S. RETURNING TO GOLD AFTER GREENBACK INFLATION
PANIC OF 1893
1870 1875 1880 1885 1890 1895 1900
BOOM HYSTERIA DEVELOPS, PRODUCING READY MARKET AT INFLATED PRICES.
SELL REAL ESTATE
BUILDING BOOM NOW PRODUCING DWELLING UNITS FASTER THAN RATE OF ABSORPTION.
VACANCIES INCREASING.
RENTALS AND VALUES FALLING.
INCREASING FORECLOSURES FURTHER DEPRESS PRICES BY THROWING DISTRESS PROPERTIES ON A DISINTERESTED MARKET.
BUY REAL ESTATE
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RENTALS AND VALUES RISE UNTIL
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1870 1875 1880 1885 1890 1895 1900

BUYING REAL ESTATE FOR A

IN the last sixty years there have been only four relatively short periods in which average improved real estate in typical communities could be purchased for phenomenal profit. Each of these periods was the result of practically the same causes occurring in practically the same sequence. We are still in the fourth of these periods.

The chart above shows these periods with the sequence of events which preceded the buying and selling periods in each case. The narrow ribbon at the bottom of the chart shows in black the unusual buying periods. Note the regularity with which these periods appear.

Note, too, how the same factors reappear in each period in the same order. Low real estate activity and high foreclosures have always accompanied buying periods in the past. Common sense alone tells us that the less activity in buying and selling real estate and the more foreclosures, the greater the congestion of distress properties on a disinterested

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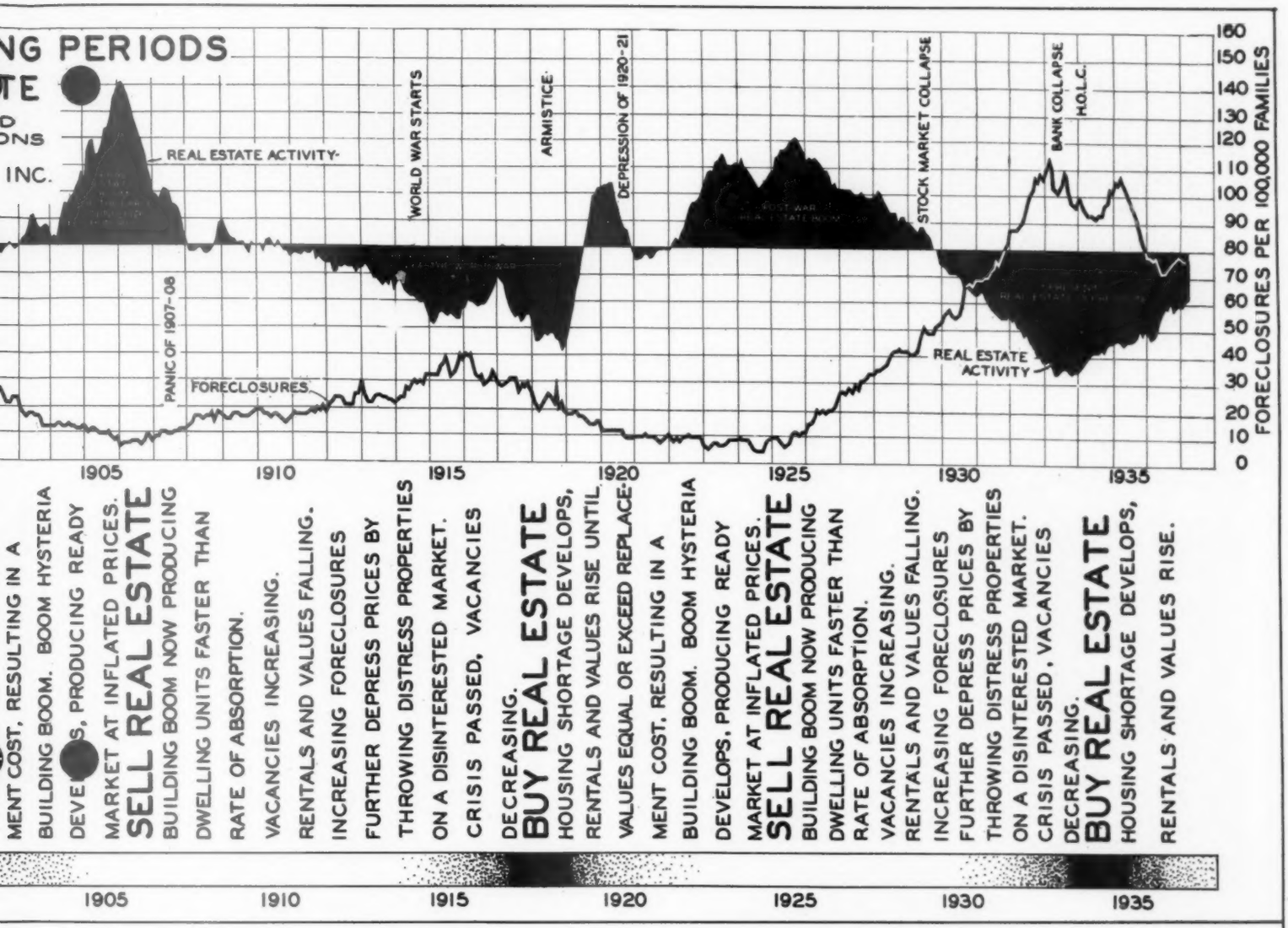

OR A PHENOMENAL PROFIT

market, and the greater the bargains obtainable by those able to buy.

The time to sell real estate is when real estate activity is high and foreclosures are low, meaning that a great demand for desirable properties, with no distress bargains available, naturally results in high prices for those pieces offered for sale.

There is no reason why the present period should prove an exception in the reactions which have always resulted in the past from identical causes. Note, in the above chart, how the sequence of events in the present upturn is following the sequences of the past. The exact timing of these events may change slightly, but there is no present possibility of their occurring in any order other than the one shown on the above chart.

Fortunes can again be made in real estate...by those who can and will invest while prices are still at their present temporary low level.

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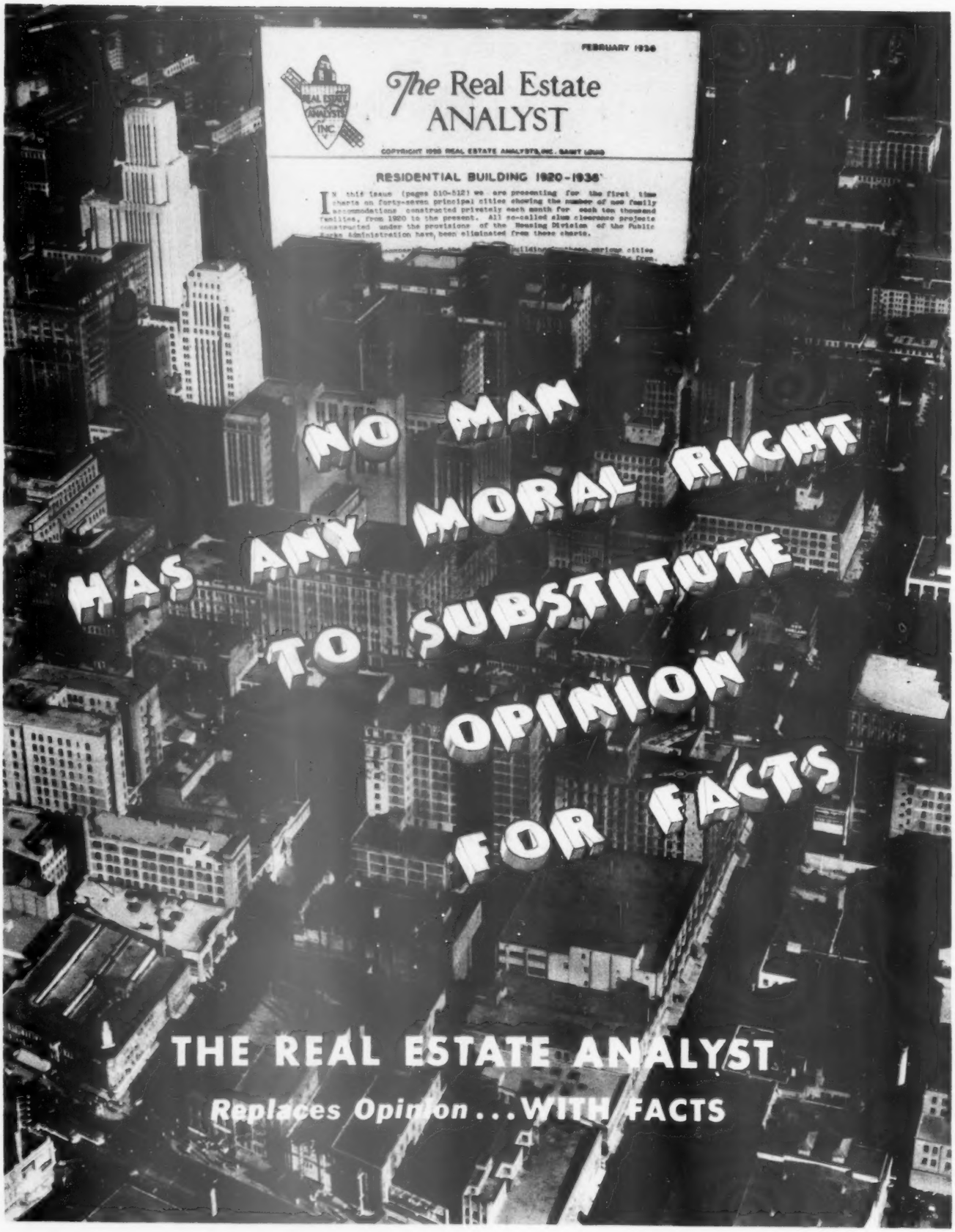
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RENT CONTROL BY INTIMIDATION OR LEGISLATION

IN Pontiac, Michigan, the CIO is attempting to organize tenants to resist rent increases by intimidation of landlords. In a number of states and in the District of Columbia at various times rent control legislation has been proposed. Some of this legislation is still pending, although most of it has failed in committee. In the Real Estate Analyst of April, 1935, we forecast a period in which frequent efforts would be made to control rent levels. At Albany within the last few months social workers have claimed that owners were taking advantage of the extreme shortage of low rent dwellings in New York City by raising rents. It is at least encouraging to know that the real estate owner has recovered to the point where he is again being called a profiteer.

Most efforts at rent control, in our opinion, are based on an ignorance of the fundamental reasons why rents, or the prices of any types of commodities, are high in some periods and low in others. Let us see if we can reduce this question to a few basic, easily understood principles.

The underlying reason a shortage of low rent housing accommodations exists in New York City today is that rents for this type of accommodation are too low to make possible the construction or modernization of suitable quarters. If rents on this type of unit increase, it will again become possible to expand the supply of acceptable units to the point where the edge will be off the shortage. Rents can never rise very far above the point where they will make a fair return on the investment, as when they reach this point the profit incentive to increase the supply is so strong that a tremendous amount of modernization and new building will take place of its own accord. To state that the owners of properties which have not paid an adequate return during the last decade are taking advantage of the shortage of low rent dwellings is ridiculous The law of supply and demand is still operating and its basic nature cannot be changed by legislation. If the demand exceeds the supply, the price goes up, regardless of whether the commodity involved is a food product, a suit of clothes, or a housing accommodation. When the supply exceeds the demand, the price drops and again it makes no difference what type of commodity is involved. When the market price of any commodity reaches the point where it can be profitably produced, it stops rising. When the price of any commodity drops to the point where it can no longer be sold at a profit, production stops until the shortage which results forces the price back to a profitable level.

The administrations of both President Hoover and President Roosevelt have tried in every possible way to stimulate new building. During both of these administrations we have constantly maintained that new building could not be stimulated until the shortage of space became so acute that rents and values would rise faster than construction costs, to

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a point where it would appear possible to build a new building or to modernize an old one which would pay an adequate return on the investment involved. Our stand six years ago was violently disputed, and in 1933-1934 we were told by numerous groups, individuals, and Government departments that new building was largely a matter of credit and that it could be stimulated by loosening credit.

The only proof of the accuracy of forecasts is the actual developments in the period covered by the forecast. Four years have now elapsed and the number of new family accommodations being produced in typical metropolitan areas is still less than one-sixth of the levels which continued for a period of years during the twenties. In Greater Chicago, for instance, present building is at a rate one-thirtieth of the levels of the last active period. This is in spite of all the pressure which has been exerted by various departments of the Government, by building material manufacturers, by contractors and by real estate operators. Only in those cities where rents either failed to drop by any great percentage or where the shortage has now reached the point where rents and values have advanced sharply is any volume of new building taking place.

If rents and values on buildings now standing are not allowed to advance in the face of advancing construction costs, new buildings when completed, in competition with the buildings already on the market, will not be worth what they cost, and when any manufactured article will not bring what it cost to produce, production stops. If production stops on new buildings, the shortage of desirable space will continue, although the basis of the complaint among the advocates of rent control is that there are too few housing accommodations at the present time to meet the need.

The remedy they propose would perpetuate the condition they deplore.

ROY WENZLICK

NO. 37-7

INVESTMENT BULLETIN

PUBLISHED IN THE INTERESTS OF THE REAL ESTATE INVESTOR BY

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The Real Estate ANALYST

REAL ESTATE ANALYSTS, INC.

Real Estate Economists, Appraisers and Counselors

REAL ESTATE ANALYSTS INC.

SAINT LOUIS

THE STRIKE SITUATION

STRIKE disturbances in the United States in the last three months have reached a new high for the last twenty-three years; probably, if the records were available, an all-time high. From three hundred thousand to four hundred thousand workers have been involved in enforced idleness amounting to more than three million idle man days a month. We think the next three months will show some recession from this high. There can be no question of the fact that this epidemic of labor troubles has delayed business recovery and has retarded the rise in rents and values.

We stated in a recent bulletin that the best remedy for high rents was high rents, and the best remedy for high prices was high prices. By this we meant that every factor which is present in the economic picture to an extreme degree automatically corrects itself. If rents go too high, it becomes profitable to build. New buildings are built at a rapid rate, the housing shortage disappears, an oversupply of space develops,and rents drop. If rents are too low, building is unprofitable, no building is done, a housing shortage develops, and rents rise. In much the same way the best remedy for labor trouble is labor trouble. The more severe the difficulties become and the more radical the action of organized labor,the sooner will popular feeling bring about a reaction. Emerson in his essay on Compensation said: "Things refuse to be mismanaged long. Though no checks to a new evil appear, the checks exist,and will appear. If the government is cruel, the governor's life is not safe. If you tax too high, the revenue will yield nothing. If you make the criminal code sanguinary, juries will not convict. If the law is too mild, private vengeance comes in." If Emerson were living today, he might have added: If employers are arbitrary with their employees,labor trouble will develop. If labor unions become too high-handed in their disregard for law and the rights of others, they will lose popular favor. If governments cringe before organized minorities and will not enforce laws, vigilante committees will.

There can be but little doubt that at the beginning of our present labor troubles, the strikers had the sympathy of the general public. However, tnings have been carried to such an extreme that much of this sympathy has vanished, and now we believe the popular reaction would be with the employer and with the man who insists on his right to work rather than with the man who insists on his right to picket and intimidate. Had labor difficulties not reached their present severity, undoubtedly labor troubles would have dragged on for many months to come. The very violence which seems so disconcerting today will make possible the speedy recovery and the return to normal working conditions.

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Labor unions have rendered an invaluable service to the working man in the past, and because of this service they have secured great power in America. But it might be well to recall the fact that through the ages privilege has always arisen through service and many times has perished through abuse.

We are anticipating a fall freer from strikes and labor troubles than the period through which we have just come.

ROY WENZLICK

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CONFIDENTIAL BULLETIN

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Real Estate Economists, Appraisers and Counselors

Roy Wenzlick
Editor

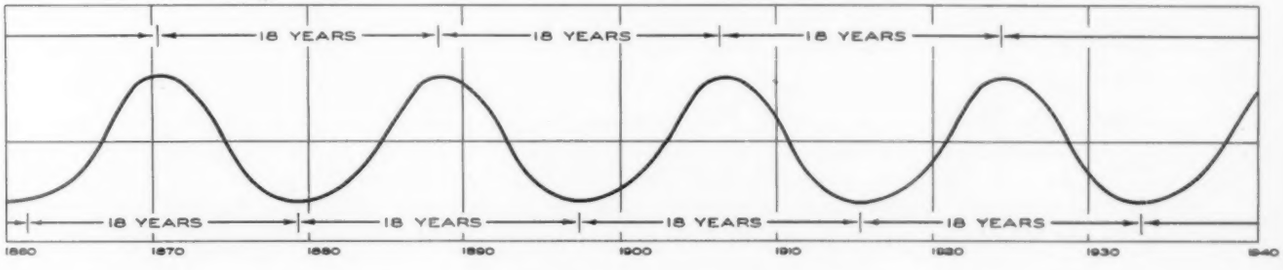
SAINT LOUIS

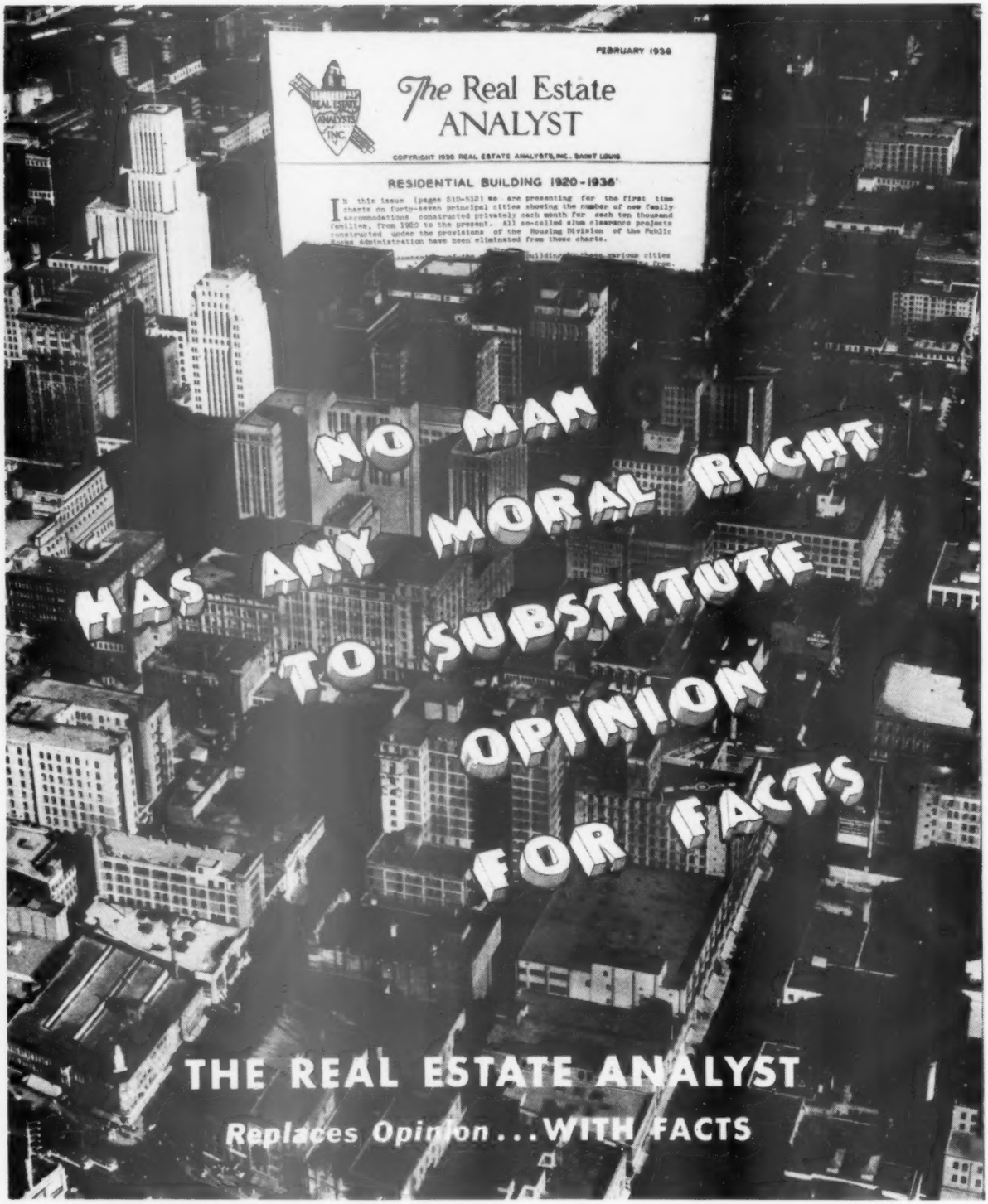
REAL ESTATE CYCLES AND POLITICS

WE have just received a letter from a man in New York who asked whether a real estate boom has ever developed during a Democratic administration. While we have always avoided taking sides in issues which are purely political, it is necessary for us to study constantly the effect of propaganda, elections and party politics on general business and real estate. While this question was asked with apologies, we believe it forms a fit subject for a discussion on a factual basis.

On the spread of this bulletin we have charted general business in contrast with real estate booms and depressions from 1860 to the present. We have shown Republican administrations in black and Democratic administrations in gray. We have indicated along the top of the chart the president in office. Our chart starts one year before the inauguration of President Lincoln and runs through to the current month. We find that of the seventy-seven years covered by this chart, Democratic administrations have accounted for twenty-one and Republican administrations for fifty-six. If we measure the average position for all Democratic and for all Republican years we find that on the average, real estate activity has been higher in Republican administrations than it has been in Democratic administrations. This, however, is not a fair comparison. Real estate booms and depressions have come with such regularity during the past that it cannot be said that they have been caused or halted by any political party.

On the chart at the bottom of this page we show a regular, recurring wave-like pattern, with eighteen years from peak to peak and from valley to valley. It will be noticed on this chart that the up-swing is slightly shorter than the down-swing. If this rhythmic motion is started in 1860 it will duplicate in a rather striking manner the swings of real estate activity from that date to the present. We have shown this same pattern in a light dash-dot line on our main chart, and it will be noticed that in a rather remarkable fashion it forms the general outlines of the booms and depressions. Naturally it isn't exact, as no economic factors

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RESIDENTIAL BUILDING 1920-1936
IN this issue (pages 510-512) we are presenting for the first time charts on forty-seven principal cities showing the number of new family accommodations constructed privately each month for each ten thousand families, from 1920 to the present. All so-called slum clearance projects constructed under the provisions of the Housing Division of the Public Works Administration have been eliminated from these charts.
NO MAN HAS ANY MORAL RIGHT TO SUBSTITUTE OPINION FOR FACTS
THE REAL ESTATE ANALYST
Replaces Opinion...WITH FACTS

The real estate or capital goods cycle appears to be so fundamental that presidents and political parties are made and broken by it rather than presidents and political parties making the cycle. If a president comes into office during the up-swing, he has a very good chance to become popular and to retain the presidency for a second term. If he comes into office as the general cycle is on the down-swing, none of his policies will apparently bring prosperity and the electorate blames the administration. The movement now is so definitely up that even major mistakes on the part of the administration will not halt the recovery.

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SAINT LOUIS

ARE RENTS NEAR THE TOP?

THE June 15, 1937 issue of the Mortgage Bankers Association News Review quoted the Alexander Hamilton Institute to the effect that the rise in rents would probably reach its peak sometime this year. The exact quotation follows, as taken from their review. "A comparison of rents with commodity prices indicates that rents have now attained an abnormally high level. The usual course is for rents to lag a year behind commodity prices. In other words, the rent index for one year is normally about equal to the commodity price index for the previous year. Last year, the commodity price index, on the basis of 1929 as 100, was 84.8, a figure which should represent the rent index for 1937. The rent index in April, however, on a corresponding basis, was 92.6, or 7.8 points above the normal level. In addition, the rent index in April was sufficiently high to more than discount the rise in commodity prices since last year. In view of these conditions, a much further rise in rents has become open to serious question."

The wide publicity given to this quotation has brought numerous inquiries to us from our clients regarding it, as it is diametrically opposed to many of the forecasts made by our organization.

Apparently the indexes which the Alexander Hamilton Institute has compared are the index of commodity prices, prepared by the Bureau of Labor Statistics, and the rent index prepared by the National Industrial Conference Board. If the 1929 figure in each of these instances is taken as 100, the percentages they quote are found for the years in question. Both of these indexes are available from 1914 to the present and in view of the statement that "The rent index for one year is normally about equal to the commodity price index for the previous year", we would naturally assume that they had compared these figures for the years in which they were both available. As wholesale prices started going up in 1915, we have called 1915 100 on both indexes and we show in the table below the index numbers on this basis from 1914 to the present.

Year	Prices	Rents	Year	Prices	Rents	Year	Prices	Rents
1914	98.0	100.0	1922	139.2	161.1	1930	124.2	155.1
1915	100.0	100.0	1923	144.8	173.3	1931	105.0	142.8
1916	123.0	101.6	1924	141.2	184.2	1932	93.2	125.4
1917	169.0	105.0	1925	149.0	180.5	1933	94.8	110.5
1918	189.0	115.0	1926	144.0	175.8	1934	107.8	112.2
1919	199.3	128.0	1927	137.2	169.5	1935	115.1	121.8
1920	222.0	154.6	1928	139.1	162.5	1936	116.2	134.8
1921	140.5	169.3	1929	137.0	159.4	1937	125.8	150.0

If the thesis of the Alexander Hamilton Institute were correct, rents in 1917 should have been 123 in place of 105. In 1918 they should

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have been 169 in place of 115. In 1919 they should have been 189 in place of 128. In 1920 they should have been 199.3 in place of 154.6. In 1921 they should have been 222 in place of 169. From 1920 to 1924 commodity prices were dropping and they dropped during this period by a very sizeable amount. On the other hand, during this entire period, year by year without an exception, rents were advancing and they advanced by almost as large a percentage as commodity prices dropped.

The statement that "The rent index for one year is normally about equal to the commodity price index for the previous year", was apparently based on a study of the last few years only, and proves the impossibility of arriving at valid conclusions in a field where the cycle averages eighteen years by studying relationships over a period of a few years only. For this reason, the rent index of Real Estate Analysts, Incorporated, has been worked back to 1851.

Rent levels, as we have constantly pointed out in The Real Estate Analyst, depend solely on the supply and demand for space, which in turn depends upon the amount of building, which in its turn depends on the relationship of construction costs to existing rents and values. With current construction costs at their present level, little additional building will be done until rents and values on older properties advance much further than they have advanced thus far.

Real Estate Analysts, Incorporated, in place of believing that rents and values are near the top, believe that rents and values will increase materially during the next five years, reaching their peak sometime in the early forties.

ROY WENZLICK